BOYS AND GIRLS CLUBS OF GREATER MEMPHIS

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Table of Contents ***December 31, 2018 and 2017***

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, 2018 and 2017, 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, 2018 and 2017, 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
April 30, 2019

Statements of Financial Position ***December 31, 2018 and 2017***

ASSETS

	2018	2017
Cash and cash equivalents	**$ 3,092,971**	$ 2,053,849
Pledges receivable, net	**494,327**	633,330
Grants receivable	**826,198**	1,320,045
Prepaid expenses	**20,267**	39,404
Receivables, long-term bargain leases	**141,098**	151,071
Investment securities	**9,587,206**	10,225,508
Cash surrender value of life insurance	**143,767**	140,738
Property and equipment, net of accumulated depreciation	**6,446,937**	6,621,911
Total assets	**$ 20,752,771**	$ 21,185,856

LIABILITIES AND NET ASSETS

	2018	2017
Liabilities		
Accounts payable	**$ 35,222**	$ 40,716
Accrued salaries and retirement	**105,340**	175,286
Accrued interest	**14,271**	16,385
Deferred revenue	**1,817,242**	1,621,823
Notes payable	**5,679,895**	5,679,895
Total liabilities	**7,651,970**	7,534,105
Net assets		
Without donor restrictions	**8,401,692**	8,322,417
With donor restrictions	**4,699,109**	5,329,334
Total net assets	**13,100,801**	13,651,751
Total liabilities and net assets	**$ 20,752,771**	$ 21,185,856

Statements of Activities ***For the years ended December 31, 2018 and 2017***

	2018			2017		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenues						
Contribution income	**$ 1,888,036**	**$ 79,838**	**$ 1,967,874**	$ 1,517,170	$ 96,333	$ 1,613,503
Capital campaign	**-**	**47,714**	**47,714**	-	52,761	52,761
United Way of the Mid-South	**457,439**	**-**	**457,439**	481,890	-	481,890
In-kind contributions	**129,542**	**7,327**	**136,869**	184,423	15,455	199,878
Grant income	**1,915,824**	**-**	**1,915,824**	1,345,847	-	1,345,847
Other revenues	**427,294**	**-**	**427,294**	223,940	-	223,940
Membership fees	**102,575**	**-**	**102,575**	117,507	-	117,507
The Phoenix, Inc.	**32,931**	**-**	**32,931**	49,912	-	49,912
Gain (loss) on sale of property and equipment	**4,000**	**-**	**4,000**	(156,002)	-	(156,002)
Net investment income (loss)	**(457,272)**	**(174,875)**	**(632,147)**	710,950	299,555	1,010,505
Total support and other revenues	**4,500,369**	**(39,996)**	**4,460,373**	4,475,637	464,104	4,939,741
Reclassifications						
Net assets released from restrictions	**590,229**	**(590,229)**	**-**	605,204	(605,204)	-
Total revenue and reclassifications	**5,090,598**	**(630,225)**	**4,460,373**	5,080,841	(141,100)	4,939,741
Expenses						
Program services	**4,299,376**	**-**	**4,299,376**	4,246,013	-	4,246,013
Management and general	**482,623**	**-**	**482,623**	328,789	-	328,789
Fundraising	**229,324**	**-**	**229,324**	279,896	-	279,896
Total expenses	**5,011,323**	**-**	**5,011,323**	4,854,698	-	4,854,698
Change in net assets, before derivative financial instrument	**79,275**	**(630,225)**	**(550,950)**	226,143	(141,100)	85,043
Change in fair value of derivative financial instrument	**-**	**-**	**-**	52,985	-	52,985
Change in net assets	**$ 79,275**	**$ (630,225)**	**$ (550,950)**	$ 279,128	$ (141,100)	$ 138,028

See accompanying notes to the financial statements.

Statements of Functional Expenses ***For the years ended December 31, 2018 and 2017***

	2018				2017			
	Program Services	**Management and General**	**Fundraising**	**Total**	Program Services	Management and General	Fundraising	Total
Compensatory expenses								
Salaries and wages	**$ 2,093,397**	**$ 361,389**	**$ 101,785**	**$ 2,556,571**	$ 1,661,902	$ 286,899	$ 80,805	$ 2,029,606
Retirement and health benefits	**218,969**	**33,669**	**6,364**	**259,002**	262,410	40,349	7,627	310,386
Payroll taxes	**169,471**	**26,182**	**5,757**	**201,410**	131,221	20,273	4,458	155,952
Subtotal compensatory	**2,481,837**	**421,240**	**113,906**	**3,016,983**	2,055,533	347,521	92,890	2,495,944
Other expenses								
Depreciation	**438,735**	**-**	**-**	**438,735**	441,723	-	-	441,723
Contract services	**263,502**	**26,362**	**17,386**	**307,250**	350,983	35,114	23,158	409,255
Program supplies	**242,035**	**-**	**-**	**242,035**	368,457	-	-	368,457
Interest	**190,805**	**-**	**-**	**190,805**	283,706	-	-	283,706
Work incentive	**143,773**	**-**	**-**	**143,773**	187,181	-	-	187,181
Insurance	**166,341**	**7,076**	**3,539**	**176,956**	145,843	6,204	3,103	155,150
Fundraising expenses	**-**	**-**	**71,039**	**71,039**	-	-	131,817	131,817
Utilities	**149,729**	**10,766**	**5,381**	**165,876**	101,926	7,329	3,663	112,918
Facility rent and maintenance	**25,492**	**4,541**	**2,269**	**32,302**	78,728	14,024	7,009	99,761
Vehicle expenses	**46,776**	**4,896**	**2,719**	**54,391**	67,109	7,024	3,901	78,034
Bank charges	**15,783**	**1,972**	**1,973**	**19,728**	39,204	4,899	4,900	49,003
Office supplies	**33,172**	**13,091**	**5,611**	**51,874**	30,871	12,183	5,222	48,276
Dues and subscriptions	**20,428**	**-**	**-**	**20,428**	28,737	-	-	28,737
Food	**24,870**	**-**	**-**	**24,870**	28,295	-	-	28,295
Telephone	**22,818**	**2,851**	**2,851**	**28,520**	20,893	2,611	2,611	26,115
Travel	**15,240**	**4,359**	**2,181**	**21,780**	10,885	3,113	1,558	15,556
Training	**13,970**	**-**	**-**	**13,970**	5,384	-	-	5,384
Miscellaneous	**4,070**	**469**	**469**	**5,008**	555	64	64	683
Provision for doubtful pledges	**-**	**(15,000)**	**-**	**(15,000)**	-	(111,297)	-	(111,297)
Total expenses	**$ 4,299,376**	**$ 482,623**	**$ 229,324**	**$ 5,011,323**	$ 4,246,013	$ 328,789	$ 279,896	$ 4,854,698

Statements of Changes in Net Assets ***For the years ended December 31, 2018 and 2017***

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, December 31, 2016	8,043,289	5,470,434	13,513,723
Change in net assets	279,128	(141,100)	138,028
Net assets, December 31, 2017	**8,322,417**	**5,329,334**	**13,651,751**
Change in net assets	**79,275**	**(630,225)**	**(550,950)**
Net assets, December 31, 2018	**$ 8,401,692**	**$ 4,699,109**	**$ 13,100,801**

See accompanying notes to the financial statements.

Statements of Cash Flows — ***For the years ended December 31, 2018 and 2017***

	2018	2017
Cash flows from operating activities		
Change in net assets	**$ (550,950)**	$ 138,028
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	**438,735**	441,723
Amortization of deferred financing costs	**-**	67,752
Unrealized (gain) loss on investments	**987,244**	(788,405)
Realized gain on investments	**(77,921)**	(24,561)
(Gain) loss on sale of property and equipment	**(4,000)**	156,002
Provision for doubtful pledges	**(15,000)**	(111,297)
Increase in cash surrender value of life insurance	**(3,029)**	(9,379)
In-kind contributions of property and equipment	**(218,570)**	-
Contributions restricted for long-term purposes	**(144,016)**	(979,513)
Change in fair value of derivative financial instrument	**-**	(52,985)
Change in operating assets and liabilities		
Pledges receivable	**154,003**	919,064
Grants receivable	**493,847**	295,580
Receivables, long-term bargain leases	**9,973**	93,666
Prepaid expenses	**19,137**	28,575
Accounts payable	**(5,494)**	20,410
Accrued salaries and retirement	**(69,946)**	62,624
Accrued interest	**(2,114)**	16,385
Deferred revenue	**195,419**	34,347
Net cash provided by operating activities	**1,207,318**	308,016
Cash flows from investing activities		
Proceeds from sale of investment securities	**1,439,469**	372,141
Purchases of investment securities	**(1,647,718)**	(2,219,760)
Proceeds from sale of property and equipment	**4,000**	950
Purchase of property and equipment	**(45,191)**	(114,564)
Net cash used in investing activities	**(249,440)**	(1,961,233)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term projects	**144,016**	979,513
Net cash provided by financing activities	**144,016**	979,513
Change in cash, cash equivalents, and restricted cash	**1,101,894**	(673,704)
Cash, cash equivalents, and restricted cash at beginning of year	**2,262,713**	2,936,417
Cash, cash equivalents, and restricted cash at end of year	**$ 3,364,607**	$ 2,262,713

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, 2018 and 2017, cash and cash equivalents consisted of the following:

	2018	2017
Cash and cash equivalents	**$ 3,092,971**	$ 2,053,849
Money market funds, pledged as collateral	**271,636**	208,864
Cash, cash equivalents, and restricted cash	**$ 3,364,607**	$ 2,262,713

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.

Property, Equipment, and Depreciation

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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 year ended December 31, 2017 was $7,303. 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 support with or without donor restrictions depending on the existence of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unrestricted. Contributions that are limited to specific uses by donor-imposed restriction are reported as being received without donor restrictions when the restrictions are met within the same reporting period. Net assets with donor restrictions are reclassified to net assets without donor restrictions when the restriction expires or is satisfied. Investment income is available to support any activities of the Organization unless otherwise specified by the donor.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include the following:

Type of Expense	Method of Allocation
Other building occupancy	Full time equivalent
Supplies and services	Full time equivalent
Salaries and wages	Time and effort
Payroll taxes and benefits	Time and effort

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 2015.

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, 2018 and 2017.

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 August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016–14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016–14"), effective for annual periods beginning after December 15, 2017, with early adoption permitted. During 2018, the Organization elected to adopt ASU 2016–14 and has implemented the requirements retrospectively. The most significant changes within ASU 2016–14 impact the following areas:

Net Asset Classes – Net asset classification has been reduced from three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to net assets with donor restrictions and net assets without donor restrictions.

Investment Return – Investment return will be reported net of external and direct internal investment expenses, and those netted expenses are no longer required to be disclosed.

Expenses – Expenses by both their natural classification and their functional classification will be presented either on the face of the statement of activities, as a separate statement, or in the notes to the financial statements.

Liquidity and Availability of Resources – ASU 2016–14 requires disclosures that communicate qualitative information of how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, as well as quantitative information that communicates the availability of a not-for-profit entity's financial assets at the statement of financial position date to meet cash needs for general expenditures with one year of the statement of financial position date.

Presentation of Operating Cash Flows – Not-for-profit entities can continue to present the statement of cash flows using either the direct method or indirect method. ASU 2016–14 removes the requirement to present or disclose the indirect method when using the direct method of reporting cash flows.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Subsequent Events

Management has evaluated subsequent events through April 30, 2019, the date the financial statements were available to be issued.

Note 3 – Pledges Receivable

At December 31, 2018 and 2017, unconditional promises to give were due as follows:

	2018	2017
Receivable in less than one year	**$ 350,688**	$ 198,769
Receivable in one to five years	**229,358**	582,994
Total pledges receivable	**580,046**	781,763
Less discount to net present value	**25,719**	73,433
Pledges receivable, at present value	**554,327**	708,330
Less allowance for doubtful pledges	**60,000**	75,000
Pledges receivable, net	**$ 494,327**	$ 633,330

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, 2018 and 2017.

Note 4 – Receivables, Long-Term Bargain Leases

As of December 31, 2018, 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 support with donor restrictions at the effective date of the lease. Receivables, long-term bargain leases at December 31, 2018 of $141,098 represents the future fair rental value of $181,650 net of unamortized discount of $40,552. The unamortized discount will be recognized as additional contributions as time restrictions expire.

Note 4 – Receivables, Long-Term Bargain Leases (continued)

Rent expense attributable to the lease to be recognized in the next five years is as follows:

Year ending December 31,	
2019	$ 17,300
2020	17,300
2021	17,300
2022	17,300
2023	17,300
Thereafter	95,150
Total	$ 181,650

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, 2018 and 2017 were comprised of the following:

	2018		2017	
	Fair Value	**Cost**	Fair Value	Cost
Money market funds	**$ 271,636**	**$ 271,636**	$ 208,864	$ 208,864
Fixed income funds	**2,787,481**	**2,903,499**	2,618,267	2,642,120
Domestic equity funds	**2,633,329**	**2,362,574**	3,023,969	2,281,819
International equity funds	**1,164,778**	**1,172,301**	1,543,063	1,354,116
Common equity securities	**1,593,143**	**1,553,992**	1,681,050	1,429,975
Total equity investments	**5,391,250**	**5,088,867**	6,248,082	5,065,910
Community Foundation of Greater Memphis	**80,494**	**66,042**	87,163	64,208
Hedge fund	**1,056,345**	**577,488**	1,063,132	577,488
Total investment securities	**$ 9,587,206**	**$ 8,907,532**	$ 10,225,508	$ 8,558,590

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.

Note 5 – Investment Securities (continued)

At December 31, 2018, investments included $8,178,731 in securities pledged as collateral under note payable to SunTrust Bank (see Note 7).

Net investment income (loss) for the years ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
Net unrealized gain (loss)	$ (987,244)	$ 788,405
Net realized gain	77,921	24,561
Net gain (loss)	(909,323)	812,966
Interest and dividend income	348,079	243,154
Investment fees	(70,903)	(45,615)
Net investment income (loss)	$ (632,147)	$ 1,010,505

Note 6 – Property and Equipment

Property and equipment consisted of the following at December 31, 2018 and 2017:

	2018	2017
Land	$ 275,123	$ 275,123
Buildings	6,511,822	6,293,252
Building improvements	4,663,089	4,648,789
Leasehold improvements	240,458	240,458
Transportation equipment	309,375	324,375
Equipment, furniture, and fixtures	1,630,640	1,599,749
	13,630,507	13,381,746
Accumulated depreciation	(7,183,570)	(6,759,835)
Property and equipment, net	$ 6,446,937	$ 6,621,911
Depreciation expense for the year	$ 438,735	$ 441,723

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).

Principal is scheduled to mature as follows:

Year ending December 31,	
2019	$ 189,330
2020	378,660
2021	378,660
2022	378,660
2023	378,660
Thereafter	3,975,925
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 year ended December 31, 2017 was to increase interest expense by $140,782.

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 – Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following as of December 31, 2018 and 2017:

	2018	2017
Time restrictions	**$ 141,098**	$ 158,985
Purpose restrictions		
Capital & Endowment Campaign	**3,286,134**	3,446,103
Club operations	**250,000**	500,000
Buckman Club	**204,639**	283,792
Endowment campaign	**8,826**	11,997
Irby Cooper Scholarship Fund	**2,468**	4,013
Tech Training Center, Logistics Track	**-**	80,000
Planning Giving Salary	**-**	38,500
In perpetuity		
Endowment corpus	**805,944**	805,944
Total	**$ 4,699,109**	$ 5,329,334

For the years ended December 31, 2018 and 2017, net assets were released from restrictions by the passage of time or incurring expenses satisfying the purpose restriction imposed by donors as follows:

	2018	2017
Time restrictions	**$ 17,300**	$ 47,950
Purpose restrictions		
Club operations	**250,000**	250,000
Capital & Endowment Campaign	**102,286**	100,128
Tech Training Center, Logistics Track	**80,000**	140,000
Tech Training Center	**45,000**	25,000
Planned Giving Salary	**38,500**	12,833
Cabins at Club Phoenix	**34,838**	-
Buckman	**14,190**	9,216
Irby Cooper Scholarship Fund	**201**	77
HVAC Repairs	**-**	20,000
Total	**$ 582,315**	$ 605,204

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, 2018 and 2017 consisted of the following:

	Without Donor Restrictions	With Donor Restrictions		Total
		Time	In Perpetuity	
As of December 31, 2018				
Donor-restricted endowment funds	**$ 344,977**	**$ 1,726,519**	**$ 805,944**	**$ 2,877,440**
Board-designated endowment funds	**148,084**	**-**	**-**	**148,084**
Total endowment funds	**$ 493,061**	**$ 1,726,519**	**$ 805,944**	**$ 3,025,524**
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

Changes in endowment net assets for the year ended December 31, 2018 were as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Time	In Perpetuity	
Endowment net assets, December 31, 2017	**$ 419,094**	**$ 2,001,468**	**$ 805,944**	**$ 3,226,506**
Investment return:				
Interest and dividends	**14,091**	**94,391**	**-**	**108,482**
Net depreciation (realized and unrealized)	**(37,296)**	**(249,827)**	**-**	**(287,123)**
Investment fees	**(2,902)**	**(19,440)**	**-**	**(22,342)**
Total investment return	**(26,107)**	**(174,876)**	**-**	**(200,983)**
Contributions	**-**	**-**	**-**	**-**
Appropriations for expenditure	**100,073**	**(100,073)**	**-**	**-**
Endowment net assets, December 31, 2018	**$ 493,060**	**$ 1,726,519**	**$ 805,944**	**$ 3,025,523**

Note 11 – Endowment Funds (continued)

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

	Donor Restrictions	With Donor Restrictions Time	With Donor Restrictions In Perpetuity	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 12 – Fair Value Measurements

Fair values of assets and liabilities measured on a recurring basis as of December 31, 2018 and 2017 include the following:

	Fair Value	**Quoted Prices in Active Markets For Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
As of December 31, 2018				
Assets				
Common equity securities	**$ 1,593,143**	**$ 1,593,143**	**$ -**	**$ -**
As of December 31, 2017				
Assets				
Common equity securities	87,163	87,163	-	-

Note 12 – Fair Value Measurements (continued)

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"):

	2018	2017	Redemption Frequency	Redemption Notice Period
Domestic equity funds	**$ 2,633,329**	$ 3,023,969	Daily	Not applicable
International equity funds	**1,164,778**	1,543,063	Daily	Not applicable
Hedge funds	**1,056,345**	1,063,132	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, 2018 and 2017 was $22,550 and $27,031, 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, 2018 and 2017, the Organization's cash payments for interest totaled $192,919 and $208,311, respectively.

Noncash investing and financing activities for the years ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
In-kind contribution of property and equipment	$ 218,570	$ -
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 – Availability of Resources and Liquidity

As part of its ongoing liquidity management, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As of December 31, 2018, the Organization's current unrestricted financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	2018
Financial assets at year end:	
Cash and cash equivalents	$ 3,092,971
Pledges receivable, net	494,327
Grants receivable	826,198
Investment securities	9,587,206
Cash surrender value of life insurance	143,767
Total financial assets	14,144,469
Amounts not available to be used within one year:	
Restricted pledges receivable and pledges receivable expected to be collected in greater then one year net of allowance	(319,823)
Investments pledged as collateral	(8,178,731)
Donor-restricted endowment funds	(2,532,463)
Board-designated endowment funds	(148,084)
Other net assets with donor restrictions	(2,025,548)
Financial assets not available to be used within one year	(13,204,649)
Financial assets available to meet general expenditures within one year	$ 939,820

Note 16 – 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.

During the year ended December 31, 2018, one donor and organizations under his control accounted for approximately fourteen percent (14%) of total support and other revenues.