

BOYS AND GIRLS CLUBS OF THE
EMERALD COAST, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012

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**Consolidated Financial
Statements and
Supplementary Information**

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Board of Directors
Boys and Girls Clubs of the Emerald Coast, Inc. and
Subsidiary
Fort Walton Beach, Florida

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of the Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary, (the Organization), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Board of Directors
Boys and Girls Clubs of the Emerald Coast, Inc. and
Subsidiary
Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2012, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from the Organization's 2011 consolidated financial statements and, in our report dated June 13, 2012, we expressed an unqualified opinion on those consolidated financial statements.

Other-Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating statements of financial position and activities on pages 18 - 19 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Warren Averett, LLC

April 10, 2013

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2012
(With Comparative Totals for December 31, 2011)

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash	\$ 236,932	\$ 687,705
Restricted cash	75,377	151,700
Grants receivable	105,843	156,031
Contribution receivable	649,653	-
Related party receivables	50,886	10,687
Investments - unrestricted	9,933,874	9,580,904
Investments - restricted	1,338,890	3,221,671
Land, buildings, and equipment, net	23,316,792	21,487,597
Deposits	<u>194</u>	<u>44</u>
TOTAL ASSETS	<u>\$ 35,708,441</u>	<u>\$ 35,296,339</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 208,126	\$ 182,412
Accrued expenses	12,262	11,863
Retainage payable	<u>139,172</u>	<u>25,000</u>
Total liabilities	<u>359,560</u>	<u>219,275</u>
NET ASSETS		
Unrestricted	33,284,961	31,703,693
Temporarily restricted	952,358	2,261,809
Permanently restricted	<u>1,111,562</u>	<u>1,111,562</u>
Total net assets	<u>35,348,881</u>	<u>35,077,064</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 35,708,441</u>	<u>\$ 35,296,339</u>

The accompanying notes are an integral
part of these financial statements.

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended December 31, 2012
(With Comparative Totals for the Year Ended December 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2012	2011
SUPPORT AND REVENUES					
Contributions	\$ 303,149	\$ -	\$ -	\$ 303,149	\$ 319,164
In-kind revenue	409,467	749,600	-	1,159,067	-
Grants	375,908	-	-	375,908	554,903
Special events	49,525	-	-	49,525	130,672
Program and activity fees	785,567	-	-	785,567	577,407
Investment income	964,917	175,666	-	1,140,583	57,734
Rent	1,855	-	-	1,855	3,913
Gain (loss) on disposal of property and equipment	1,500	-	-	1,500	(19,600)
TOTAL SUPPORT AND REVENUES	2,891,888	925,266	-	3,817,154	1,624,193
Net assets released from restrictions	<u>2,234,717</u>	<u>(2,234,717)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES AFTER NET ASSETS RELEASED FROM RESTRICTION	<u>5,126,605</u>	<u>(1,309,451)</u>	<u>-</u>	<u>3,817,154</u>	<u>1,624,193</u>
EXPENSES					
Program expenses	2,997,769	-	-	2,997,769	2,172,408
Management and general	412,801	-	-	412,801	794,097
Fundraising	<u>134,767</u>	<u>-</u>	<u>-</u>	<u>134,767</u>	<u>244,446</u>
TOTAL EXPENSES	<u>3,545,337</u>	<u>-</u>	<u>-</u>	<u>3,545,337</u>	<u>3,210,951</u>
CHANGE IN NET ASSETS	1,581,268	(1,309,451)	-	271,817	(1,586,758)
NET ASSETS - BEGINNING OF YEAR (as restated; Note 12)	<u>31,703,693</u>	<u>2,261,809</u>	<u>1,111,562</u>	<u>35,077,064</u>	<u>36,663,822</u>
NET ASSETS - END OF YEAR	<u>\$33,284,961</u>	<u>\$ 952,358</u>	<u>\$1,111,562</u>	<u>\$35,348,881</u>	<u>\$ 35,077,064</u>

The accompanying notes are an integral part of these financial statements.

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2012
(With Comparative Totals for the Year Ended December 31, 2011)

	Program Expenses	Management and General	Fundraising	Total	
				2012	2011
EXPENSES					
Compensation and related expenses					
Compensation	\$ 1,126,196	\$ 210,471	\$ 81,543	\$ 1,418,210	\$ 1,436,550
Employee benefits	128,496	24,014	9,304	161,814	84,663
Payroll taxes	92,955	17,372	6,730	117,057	120,126
Pension	3,881	725	281	4,887	11,165
Total compensation and related expenses	<u>1,351,528</u>	<u>252,582</u>	<u>97,858</u>	<u>1,701,968</u>	<u>1,652,504</u>
Other expenses					
Bad debt expense	173,044	-	-	173,044	-
Conferences and meetings	8,260	23,239	-	31,499	30,501
Contract labor	200	37,329	-	37,529	5,150
Curriculum expense	138,975	-	-	138,975	214,732
Depreciation	281,183	925	316	282,424	284,786
Dues and subscriptions	19,333	1,007	-	20,340	9,154
Fundraising	4,364	-	24,320	28,684	73,540
Insurance	116,832	1,383	451	118,666	151,226
Interest	-	2,869	-	2,869	5,274
Investment fees	83,596	-	-	83,596	57,461
Marketing	-	-	9,689	9,689	10,245
Miscellaneous	6,306	3,250	-	9,556	8,471
Office	95,536	38,142	830	134,508	84,639
Professional fees	-	48,736	-	48,736	206,995
Rent	396,381	1,684	757	398,822	14,910
Repairs and maintenance	25,657	377	129	26,163	168,323
Scholarships awarded	2,228	-	-	2,228	7,597
Taxes	32,885	-	-	32,885	45,903
Transportation	42,354	-	-	42,354	56,232
Utilities	219,107	1,278	417	220,802	123,308
Total other expenses	<u>1,646,241</u>	<u>160,219</u>	<u>36,909</u>	<u>1,843,369</u>	<u>1,558,447</u>
TOTAL EXPENSES	<u>\$ 2,997,769</u>	<u>\$ 412,801</u>	<u>\$ 134,767</u>	<u>\$ 3,545,337</u>	<u>\$ 3,210,951</u>

The accompanying notes are an integral part of these financial statements.

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2012
(With Comparative Totals for the Year Ended December 31, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 271,817	\$ (1,586,758)
Adjustments to reconcile change in net assets to cash flows from operating activities		
Depreciation	282,424	330,689
Bad debt expense	173,044	-
Investment income	(942,022)	(57,734)
(Gain) loss on disposal of vehicle	(1,500)	19,600
Change in operating assets and liabilities		
Membership fees receivable	(173,044)	-
Grants receivable	50,188	54,287
Related party receivables	(40,199)	(8,423)
Contribution receivable	(649,653)	1,111,562
Prepaid insurance	-	9,356
Deposits	(150)	3,373
Accounts payable	25,714	(11,003)
Accrued expenses	399	(11,671)
Retainage payable	114,172	25,000
Net cash flows from operating activities	<u>(888,810)</u>	<u>(121,722)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sale of investments	10,500,263	5,537,129
Purchase of investments	(8,028,430)	(3,752,685)
Purchase of land, building, and equipment	(2,111,619)	(997,086)
Proceeds from sale of capital asset	1,500	-
Net cash flows from investing activities	<u>361,714</u>	<u>787,358</u>
NET CHANGE IN CASH	(527,096)	665,636
CASH - BEGINNING OF YEAR	<u>839,405</u>	<u>173,769</u>
CASH - END OF YEAR	<u>\$ 312,309</u>	<u>\$ 839,405</u>
RECONCILIATION TO STATEMENT OF FINANCIAL POSITION		
Cash	\$ 236,932	\$ 687,705
Restricted cash	<u>75,377</u>	<u>151,700</u>
Total cash at end of year	<u>\$ 312,309</u>	<u>\$ 839,405</u>

The accompanying notes are an integral part of these financial statements.

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose

Boys and Girls Clubs of the Emerald Coast, Inc. is a not-for-profit organization incorporated under the laws of the State of Florida in 1967, for the purpose of inspiring and empowering all young people and their families, in partnership with the community, to achieve their full potential to Be Great. The Boys and Girls Clubs of the Emerald Coast, Inc. is primarily supported through donor contributions, membership fees, special events, and grants.

The Boys and Girls Clubs of the Emerald Coast Foundation, Inc. is a not-for-profit organization organized under the laws of the State of Florida on July 29, 2005, to support and carry out charitable and educational functions of the Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary by providing financial support and other aid to the Boys and Girls Clubs of the Emerald Coast, Inc. and to its beneficiaries as directed by the Boys and Girls Clubs of the Emerald Coast, Inc. as a supporting organization.

B. Principles of Consolidation

The consolidated financial statements include the accounts of the Boys and Girls Clubs of the Emerald Coast, Inc. and the Boys and Girls Clubs of the Emerald Coast Foundation, Inc. The Boys and Girls Clubs of the Emerald Coast, Inc. has both an economic interest in the Boys and Girls Clubs of the Emerald Coast Foundation, Inc. and control of the Boys and Girls Clubs of the Emerald Coast Foundation, Inc. through a majority voting interest in its governing board. All material intra-entity transactions have been eliminated. Hereinafter, the Boys and Girls Clubs of the Emerald Coast, Inc. and the Boys and Girls Clubs of the Emerald Coast Foundation, Inc. will be referred to as "the Organization".

C. Basis of Accounting

The Organization follows standards of accounting and financial reporting prescribed for voluntary health and welfare agencies. It uses the accrual basis of accounting, which reflects all significant receivables, payables, and other liabilities. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Pledges for contributions are recorded as received and allowances are provided for amounts if determined to be uncollectible.

The costs of providing the various programs and other activities have been detailed in the accompanying Consolidated Statement of Functional Expenses and summarized on a functional basis in the Consolidated Statement of Activities.

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Salaries and other expenses, which are associated with a specific program, are charged directly to that program. Salaries and other expenses, which benefit more than one program, are allocated to the various programs based on the relative benefit provided. Most administrative expenses are allocated to the various programs based on each program's salary expense.

D. Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Codification Standards for Not-for-Profit Entities. Under the Not-for-Profit Entities Topic of the FASB Accounting Standards Codification (ASC), the Organization is required to report information regarding its financial position and activities according to three classes of net assets as follows:

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. Board designated or appropriated amounts are reported as part of the unrestricted class since the Board has the authority to change or withdraw such designations or appropriations.
- Temporarily restricted net assets contain donor-imposed restrictions that require the Organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Organization.
- Permanently restricted net assets contain donor-restricted endowment funds where the original value of the gift is to be held in perpetuity.

E. Cash and Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows, the Organization considers all unrestricted highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

F. Investments

The Organization's investments are in mutual funds and money market accounts and are classified as "available for sale" securities in accordance with the Investments Subtopic of the Not-for-Profit Entities Topic of the FASB ASC. The investments are measured at fair value using quoted prices in active markets for identical assets (Level 1 Inputs). All realized and unrealized gains and losses are included in the change in net assets for the year.

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Allowance for Doubtful Accounts

The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all promises to give to determine the collectability of the pledge. After all attempts to collect on a pledge have been exhausted, the receivable is written off against the allowance.

H. Land, Buildings, and Equipment

Land, buildings and equipment are recorded at cost, or at fair market value if donated. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. The Organization follows the practice of capitalizing acquisitions of assets in excess of \$1,500. Depreciation expense is reported in the Consolidated Statement of Activities as a decrease in unrestricted net assets, and is calculated using the straight-line method with useful lives ranging from 5 to 39 years.

I. Compensated Absences

Employees of the Organization are entitled to paid time off depending on job classification, length of service, and other factors. These benefits lapse upon termination. Eligible employees begin to accrue paid time off on the first day of employment; however, they are not eligible to use the paid time off until after a 90 day probationary period. Earned paid time off benefits from the prior year greater than 40 hours lapse. In the event of termination, an employee is entitled to receive the vacation days accrued for the current calendar year only. The Organization was not liable for any accrued compensated absences at December 31, 2012.

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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 Consolidated Statement of Activities as net assets released from restrictions.

K. Donated Space, Materials and Services

Donated space and materials are reflected in the accompanying statements at their estimated fair values. No material amounts have been reflected in the financial statements for donated services; however, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific program services and campaign solicitation.

L. Income Taxes

The Organization has been granted an exemption from income taxes under Internal Revenue Code, Section 501(c)(3) as a not-for-profit corporation. The Organization is not aware of any uncertain tax positions that would require disclosure or accrual in accordance with generally accepted accounting principles. The Organization annually files Form 990 as required for not-for-profit entities. These returns are subject to examination by the applicable taxing authorities for the last three preceding years.

M. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Comparative Data

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

O. Reclassifications

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year presentation.

P. Subsequent Events

The Organization has evaluated events and transactions that occurred between December 31, 2012 and April 10, 2013, which is the date the financial statements were available to be issued, for possible recognition of disclosure in the financial statements.

NOTE 2 - CONTRIBUTION RECEIVABLE

Contribution receivable represents a donor's unconditional promise for the use of facilities for a specified period of time and is reported as temporarily restricted support at its fair value. Recognition of the contribution receivable at December 31, 2012 is expected as follows:

Due within one year	\$ 137,920
Due in one to five years	<u>511,733</u>
	<u>\$ 649,653</u>

The contribution receivable originated during 2012 from an agreement between the Organization and Santa Rosa County for the use of a facility, including utilities, in Milton, Florida for five (5) years, effective February 10, 2012.

NOTE 3 - RELATED PARTY RECEIVABLES

The Organization's related party receivables at December 31, 2012 consisted of the following:

Due from the Florida Alliance of Boys and Girls Clubs	\$ 21,137
Due from the Boys and Girls Clubs of America	29,137
Due from employees	<u>612</u>
Total	<u>\$ 50,886</u>

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 4 - INVESTMENTS

The Organization's investments at December 31, 2012 are recorded at fair value as summarized below:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Bank deposit program and money market funds	\$ 3,665,616	\$ 3,665,616	\$ 3,665,616
Mutual Funds	7,359,965	7,607,148	7,607,148
Totals	<u>\$ 11,025,581</u>	<u>\$ 11,272,764</u>	<u>11,272,764</u>
Reconciliation of investments to Statement of Financial Position:			
Investments - unrestricted		\$ 9,933,874	
Investments - restricted		<u>1,338,890</u>	
Totals		<u>\$ 11,272,764</u>	

Investment income in the Consolidated Statement of Activities consisted of the following for the year ended December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 177,993	\$ 165,918	\$ 343,911
Realized gain	699,191	-	699,191
Unrealized gain	<u>87,733</u>	<u>9,748</u>	<u>97,481</u>
Totals	<u>\$ 964,917</u>	<u>\$ 175,666</u>	<u>\$ 1,140,583</u>

NOTE 5 - LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment at December 31, 2012 consisted of the following:

Building and improvements	\$ 8,280,322
Construction in process	3,761,109
Land and improvements	12,201,447
Furniture and equipment	375,542
Vehicles	<u>286,182</u>
Total land, buildings, and equipment	24,904,602
Less accumulated depreciation	<u>(1,587,810)</u>
Total land, buildings, and equipment, net	<u>\$ 23,316,792</u>

Depreciation expense for the year ended December 31, 2012 was \$282,424.

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2012 consisted of the following:

Amounts restricted for the design/construction of the South Walton County Club facility	\$	146,809
Amounts restricted for programming activities at the South Walton County Club facility		80,519
Amounts restricted for the DeFuniak Springs Club facility - outside travel		20,000
Amounts restricted for capital expenditures to open a youth unit in Milton, Florida		51,677
Amounts restricted for use of facility and utilities in Milton, Florida		649,653
Other		3,700
Total		<u>\$ 952,358</u>

NOTE 7 - ENDOWMENT FUNDS

The State of Florida enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective July 1, 2012, the provisions of which apply to endowment funds existing on or established after that date. The Organization has determined that the Organization's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

The Organization interprets UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of 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 1) the original value of gifts donated to the perpetual endowment, 2) the original value of subsequent gifts to the perpetual endowment, and 3) accumulations to the perpetual 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 as 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.

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 7 - ENDOWMENT FUNDS (CONTINUED)

In accordance with UPMIFA, the Organization considers the following factors in making a determination of whether to invest or appropriate donor-restricted endowment funds:

1. the duration and preservation of the fund
2. the purposes of the Organization and the donor-restricted endowment fund
3. general economic conditions
4. the possible effect of inflation and deflation
5. the expected total return from income and the appreciation of investments
6. other resources of the Organization
7. the investment policies of the Organization

Income from the assets held is available for program, operations, and emergency capital repair expenses of the Organization's South Walton Club.

Endowment net asset composition by type of fund as of December 31, 2012:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment fund established in 2011 to benefit the South Walton Club in Santa Rosa Beach, Florida	\$ 80,519	\$ 1,111,562	\$ 1,192,081

Changes in endowment net assets for year ended December 31, 2012:

	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year, restated	\$ (68,629)	\$ 1,111,562
Investment return:		
Investment income	139,400	-
Net of fees, losses (realized and unrealized)	9,748	-
Total investment return	80,519	1,111,562
Endowment net assets, end of year	\$ 80,519	\$ 1,111,562

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 7 - ENDOWMENT FUNDS (CONTINUED)

The Organization's endowment investment policy is based on fundamental financial principles that include prudent asset allocation, risk assessment and long-term planning. The investment policy emphasizes total return, which allows the funds to utilize current dividend and interest income, and over time, a portion of the aggregate return from capital appreciation, in an 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. Within this framework, specific investment objectives for endowment investments include liquidity, preservation of capital, preservation of purchasing power, and long-term growth of capital.

The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term objective is to produce, after investment expenses, a minimum annual compound total rate of return equal to the Consumer Price Index (CPI) plus 300 basis points (3%) for spending, plus an additional 200 basis points (2%) on an annualized basis. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current earnings (interest and dividends). The Organization targets a diversified asset allocation.

Endowment funds are maintained in a pooled investment portfolio. Interest, dividends, and realized and unrealized gains and losses in the investment pools are allocated monthly to the endowment funds in proportion to each fund's share in the investment pool.

NOTE 8 - RETIREMENT PLAN

The Organization participates in a qualified retirement plan in which the Organization makes a matching contribution equal to 5% of each eligible employee's annual gross salary. Employees are eligible to participate in the plan after one full year of continuous service. Employees become 100% vested immediately upon entry into the plan. Retirement expense for the year ended December 31, 2012 totaled \$4,887.

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 9 - CONTRIBUTED FACILITIES

The Organization receives use of various facilities, including utilities, without payment. When the value of such use is ascertainable and meets the criteria for recognition in the Statement of Activities, it is reflected in the accompanying financial statements as in-kind revenue and expense. Rent and utility expenses are recorded at estimated fair value. For the year ended December 31, 2012, the Organization recorded in-kind rent and utilities of \$1,159,067, which includes a five year unconditional promise to give in the amount of \$749,600 as described in Note 2.

NOTE 10 - GRANTS

The Organization was awarded the 21st Century Community Learning Centers Grant with a total funding amount of \$304,036 for the period of August 2012 through July 2013. The grant encompasses four counties and is administered by the Organization. All funding is received upon submission and approval of requests for reimbursement of qualifying expenditures. Total qualifying expenditures incurred through December 31, 2012 were \$105,843, of which \$3,698 was associated with the Boys and Girls Clubs of Bay County, Inc. (BGCBC). Of the total amount associated with BGCBC, \$3,698 is included in accounts payable at December 31, 2012. Grants receivable related to the 21st Century Community Learning Centers Grant at December 31, 2012 was \$105,843.

In May 2012, the Organization was awarded its appropriations of the Florida Department of Education (DOE) and Florida Department of Juvenile Justice (DJJ) Legislative Grant through the Florida Alliance of Boys & Girls Clubs with a total funding amount of \$76,331 for the period July 2012 through June 2013. All funding is received upon submission and approval of requests for reimbursement of qualifying expenditures. Total qualifying expenditures incurred through December 31, 2012 were \$32,679. The amount receivable from the Florida Alliance Boys & Girls Clubs related to the DOE and DJJ Legislative Grant at December 31, 2012 was \$21,137, and is included in related party receivables (see Note 3).

NOTE 11 - COMMITMENTS

During 2011, the Organization contracted with a general contractor for the construction of the South Walton Boys and Girls Club facility. The total sum of the construction contract, after change orders, is \$3,518,279, of which \$1,391,715 in construction costs had been incurred, resulting in a contract commitment of \$2,126,564 as of December 31, 2012.

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 11 - COMMITMENTS (CONTINUED)

An Ethernet service provider has claimed that the Organization contracted with them to provide Ethernet services to the Organization for a period of five years beginning September 2012 and extending through August 2017. The contract requires payment of \$1,200 per month, plus applicable Florida Communication Services Tax, for a total monthly payment of \$1,360, or \$81,600 for the five-year term. The Ethernet service provider claims that they are owed approximately \$5,259 as of December 31, 2012. The Organization disputes that there is a contract, but recognizes some potential liability to the Ethernet service provider. As of the date of this report, the Organization and the service provider are working together to resolve the contract issue and the amount of the liability of the Organization.

NOTE 12 - RESTATEMENT OF NET ASSETS

The previously issued financial statements for the year ended December 31, 2011 have been restated to correct for an error in the classification of net assets as of December 31, 2011. The effect of this correction on the December 31, 2011 financial statements is an increase to permanently restricted net assets of \$1,111,562, with a corresponding decrease to temporarily restricted net assets of \$1,111,562.

SUPPLEMENTARY INFORMATION

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2012

	<u>Organization</u>	<u>Foundation</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
ASSETS				
Cash	\$ 211,830	\$ 25,102	\$ -	\$ 236,932
Restricted cash	75,377	-	-	75,377
Grants receivable	105,843	-	-	105,843
Contribution receivable	649,653	-	-	649,653
Related party receivables	56,669	-	(5,783)	50,886
Investments - unrestricted	-	9,933,874	-	9,933,874
Investments - restricted	-	1,338,890	-	1,338,890
Land, buildings and equipment, net	10,262,519	13,054,273	-	23,316,792
Deposits	194	-	-	194
TOTAL ASSETS	<u>\$ 11,362,085</u>	<u>\$ 24,352,139</u>	<u>\$ (5,783)</u>	<u>\$ 35,708,441</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 203,230	\$ 10,679	\$ (5,783)	\$ 208,126
Retainage payable	139,172	-	-	139,172
Accrued expenses	12,262	-	-	12,262
Total liabilities	<u>354,664</u>	<u>10,679</u>	<u>(5,783)</u>	<u>359,560</u>
NET ASSETS				
Unrestricted	10,282,391	23,002,570	-	33,284,961
Temporarily restricted	725,030	227,328	-	952,358
Permanently restricted	-	1,111,562	-	1,111,562
Total net assets	<u>11,007,421</u>	<u>24,341,460</u>	<u>-</u>	<u>35,348,881</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,362,085</u>	<u>\$ 24,352,139</u>	<u>\$ (5,783)</u>	<u>\$ 35,708,441</u>

See independent auditor's report.

Boys and Girls Clubs of the Emerald Coast, Inc. and Subsidiary
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended December 31, 2012

	Organization		Foundation		Eliminating Entries	Consolidated Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted		
SUPPORT AND REVENUES						
Contributions	\$ 303,149	\$ -	\$ -	\$ -	\$ -	\$ 303,149
Foundation contributions	2,859,390	-	-	-	(2,859,390)	-
In-kind revenue	803,367	749,600	-	-	(393,900)	1,159,067
Grants	375,908	-	-	-	-	375,908
Special events	49,525	-	-	-	-	49,525
Program and activity fees	785,567	-	-	-	-	785,567
Investment income	24	-	964,893	175,666	-	1,140,583
Rent	1,855	-	-	-	-	1,855
Gain on disposal of equipment	1,500	-	-	-	-	1,500
Total support and revenues	5,180,285	749,600	964,893	175,666	(3,253,290)	3,817,154
Net assets released from restrictions	176,270	(176,270)	2,058,447	(2,058,447)	-	-
TOTAL SUPPORT AND REVENUES AFTER NET ASSETS RELEASED FROM RESTRICTION	5,356,555	573,330	3,023,340	(1,882,781)	(3,253,290)	3,817,154
EXPENSES						
Program expenses	3,010,636	-	3,224,943	-	(3,237,810)	2,997,769
Management and general	415,527	-	8,944	-	(11,670)	412,801
Fundraising	138,343	-	234	-	(3,810)	134,767
Total expenses	3,564,506	-	3,234,121	-	(3,253,290)	3,545,337
CHANGE IN NET ASSETS	1,792,049	573,330	(210,781)	(1,882,781)	-	271,817
NET ASSETS - Beginning of year, restated	8,490,342	151,700	23,213,351	2,110,109	-	35,077,064
NET ASSETS - End of year	\$ 10,282,391	\$ 725,030	\$ 23,002,570	\$ 227,328	\$ -	\$ 35,348,881

See independent auditor's report.

