



Boys and Girls Clubs of the Tennessee Valley

**Financial Statements with
Accompanying Information
Years Ended June 30, 2017 and 2016
and
Independent Auditors' Report**

Boys and Girls Clubs of the Tennessee Valley

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HG&A Associates, P.C.
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
Boys and Girls Clubs of the Tennessee Valley
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Boys and Girls Clubs of the Tennessee Valley (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

J. Wesley Edmondson • Tim Royster • Jenny C. Raines • Michelle Herrell • Jennifer M. Blackwood

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Boys and Girls Clubs of the Tennessee Valley as of June 30, 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.

Other Matters*Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information included on page 20 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards included on pages 21 and 22, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2018, on our consideration of the Boys and Girls Clubs of the Tennessee Valley's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Boys and Girls Club of the Tennessee Valley's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Boys and Girls Clubs of the Tennessee Valley's internal control over financial reporting and compliance.

HG & A Associates, P.C.

Knoxville, Tennessee

March 19, 2018

Boys and Girls Clubs of the Tennessee Valley

Statements of Financial Position

June 30, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 18,764	-
Grants receivable:		
Federal and state	386,075	415,594
Other	6,165	8,178
Fee vouchers receivable	53,393	93,351
Special events receivable	-	9,475
Interest and dividend receivable	1,150	1,464
Unconditional promises to give, net of allowance for uncollectible amounts - current portion:		
Capital	435,164	747,061
Operating	18,098	11,603
Other receivables	39,619	51,475
Prepaid expenses	128,811	2,998
Prepaid insurance	-	24,980
Notes receivable - current portion	<u>1,715</u>	<u>1,588</u>
Total current assets	<u>1,088,954</u>	<u>1,367,767</u>
Restricted and designated cash and investments:		
Endowment funds:		
Restricted:		
Cash	640	1,104
Investments	102,565	296,799
Designated:		
Cash	7,803	17,276
Investments	<u>1,247,221</u>	<u>1,284,648</u>
Total endowment funds	1,358,229	1,599,827
Other restricted assets:		
Cash	<u>1,748,221</u>	<u>1,715,123</u>
Total restricted and designated cash and investments	<u>3,106,450</u>	<u>3,314,950</u>
Unconditional promises to give, net of allowance for uncollectible amounts - long-term portion:		
Capital	623,565	1,006,678
Operating	-	12,658
Notes receivable - long-term portion	1,852	3,566
Property and equipment, net of accumulated depreciation	15,923,914	15,474,694
Deposits	<u>13,700</u>	<u>13,700</u>
Total assets	<u>\$ 20,758,435</u>	<u>21,194,013</u>

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

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
Current liabilities:		
Notes payable - current portion	\$ 250,983	264,981
Accounts payable	681,477	1,515,069
Accounts payable - other Boys and Girls Clubs	4,886	7,524
Accrued expenses	148,097	267,927
Deferred revenue	<u>82,441</u>	<u>99,800</u>
Total current liabilities	1,167,884	2,155,301
Line of credit - long term	434,000	435,000
Notes payable, less current portion	<u>10,211,396</u>	<u>8,613,091</u>
Total liabilities	<u>11,813,280</u>	<u>11,203,392</u>
Net assets:		
Unrestricted	6,035,000	6,223,856
Temporarily restricted	2,910,155	3,766,765
Total net assets	<u>8,945,155</u>	<u>9,990,621</u>
 Total liabilities and net assets	 <u>\$ 20,758,435</u>	 <u>21,194,013</u>

Boys and Girls Clubs of the Tennessee Valley
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public Support, Revenue and Gains:						
Contributions	\$ 271,625	321,100	592,725	107,362	1,091,389	1,198,751
Contributions - in-kind	226,566	-	226,566	241,732	-	241,732
Support from the capital campaign	1,500,410	972,411	2,472,821	437,418	890,255	1,327,673
Special events, net of direct expenses of \$283,992 in 2017 and \$690,920 in 2016	560,916	-	560,916	651,293	-	651,293
Allocation - Knoxville Community Development Corporation	75,000	-	75,000	75,000	-	75,000
Allocation - United Way	1,054,273	54,000	1,108,273	952,969	-	952,969
Support from government agencies	3,367,292	-	3,367,292	3,319,539	-	3,319,539
Proceeds from vendor/voucher program	588,711	-	588,711	707,769	-	707,769
Activity fees and income	16,191	-	16,191	26,150	-	26,150
Day care fees	1,259,865	-	1,259,865	1,406,279	-	1,406,279
Income from investments	28,504	5,734	34,238	31,828	6,691	38,519
Rental income	41,381	-	41,381	40,975	-	40,975
Net realized and unrealized gains (losses) from investments	76,219	5,622	81,841	(11,288)	(798)	(12,086)
Loss on disposition of assets	(367,305)	-	(367,305)	(499)	-	(499)
Other support and revenue	79,872	152,375	232,247	115,978	76,000	191,978
Net assets released from restrictions:						
Restrictions satisfied by payments	2,367,852	(2,367,852)	-	2,912,544	(2,912,544)	-
Total revenue	<u>11,147,372</u>	<u>(856,610)</u>	<u>10,290,762</u>	<u>11,015,049</u>	<u>(849,007)</u>	<u>10,166,042</u>
Expenses:						
Program services - child development	9,070,851	-	9,070,851	8,936,244	-	8,936,244
Management and general	1,628,677	-	1,628,677	1,655,442	-	1,655,442
Development and fundraising	636,700	-	636,700	718,063	-	718,063
Total expenses	<u>11,336,228</u>	<u>-</u>	<u>11,336,228</u>	<u>11,309,749</u>	<u>-</u>	<u>11,309,749</u>
Decrease in net assets	(188,856)	(856,610)	(1,045,466)	(294,700)	(849,007)	(1,143,707)
Net assets - beginning of year	<u>6,223,856</u>	<u>3,766,765</u>	<u>9,990,621</u>	<u>6,518,556</u>	<u>4,615,772</u>	<u>11,134,328</u>
Net assets - end of year	<u>\$ 6,035,000</u>	<u>2,910,155</u>	<u>8,945,155</u>	<u>6,223,856</u>	<u>3,766,765</u>	<u>9,990,621</u>

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

Boys and Girls Clubs of the Tennessee Valley
Statements of Functional Expenses
Years Ended June 30, 2017 and 2016

	2017				2016			
	Total Program Services	Management and General	Development and Fund Raising	Total	Total Program Services	Management and General	Development and Fund Raising	Total
Salaries	\$ 4,343,044	708,647	305,394	5,357,085	4,746,546	762,434	368,919	5,877,899
Pension plan contributions	132,730	38,920	18,508	190,158	139,442	40,242	20,461	200,145
Other payroll benefits	297,646	74,214	22,869	394,729	317,535	60,378	22,243	400,156
Payroll taxes	325,825	49,084	22,833	397,742	356,116	54,878	24,676	435,670
Unemployment tax reimbursement	-	3,364	-	3,364	293	7,564	-	7,857
Total salaries and related expenses	5,099,245	874,229	369,604	6,343,078	5,559,932	925,496	436,299	6,921,727
Conferences, conventions and meetings	7,333	16,289	29,586	53,208	25,951	32,120	52,993	111,064
Direct program expenses	1,618,281	7,311	-	1,625,592	1,617,238	6,657	-	1,623,895
Dues and subscriptions	25,580	2,276	1,540	29,396	50,936	16,015	960	67,911
Repairs and maintenance	352,063	36,110	10,474	398,647	343,179	32,618	4,180	379,977
Insurance	88,789	5,066	1,151	95,006	132,336	(5,155)	2,379	129,560
Interest expense	-	438,320	-	438,320	-	216,774	-	216,774
Licenses and permits	480	361	254	1,095	866	430	58	1,354
Occupancy	79,456	5,213	-	84,669	76,973	61,041	-	138,014
Plaques, awards and gifts	5,302	1,506	3,213	10,021	11,809	4,817	768	17,394
Postage and shipping	110	9,173	2,652	11,935	308	10,105	6,105	16,518
Professional fees	-	143,689	62,821	206,510	3,653	179,510	32,868	216,031
Promotions	-	-	43,639	43,639	450	-	52,721	53,171
Supplies	6,155	17,786	11,547	35,488	9,115	11,509	16,818	37,442
Technology	103,393	25,706	5,104	134,203	106,861	46,798	8,095	161,754
Telephone	87,075	11,882	3,476	102,433	60,793	18,009	3,675	82,477
Transportation and travel	486,581	5,942	6,115	498,638	83,705	33,153	11,683	128,541
Trust fees	-	7,661	-	7,661	-	8,028	-	8,028
Utilities	537,855	11,741	3,344	552,940	483,514	13,608	3,591	500,713
Uncollectible pledges	-	-	8,129	8,129	-	-	-	-
Miscellaneous expenses	3,621	8,416	74,051	86,088	6,655	23,909	84,870	115,434
Total before depreciation	8,501,319	1,628,677	636,700	10,766,696	8,574,274	1,635,442	718,063	10,927,779
Depreciation	569,532	-	-	569,532	361,970	20,000	-	381,970
\$	<u>9,070,851</u>	<u>1,628,677</u>	<u>636,700</u>	<u>11,336,228</u>	<u>8,936,244</u>	<u>1,655,442</u>	<u>718,063</u>	<u>11,309,749</u>

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

Boys and Girls Clubs of the Tennessee Valley
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Decrease in net assets	\$ (1,045,466)	(1,143,707)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	569,532	381,970
Realized and unrealized loss on investments	46,175	5,048
Loss on disposition of assets	367,305	499
Change in allowance for uncollectible promises to give	(87,583)	(10,762)
Change in present value discount of uncollectible promises to give	(73,992)	(211,498)
Change in operating assets and liabilities:		
Unconditional promises to give	862,748	831,964
Grants receivable	31,532	195,267
Fee vouchers receivable	39,958	(13,883)
Special events receivable	9,475	19,526
Interest, dividends and other receivables	12,170	(17,154)
Prepaid expenses	(125,813)	122,127
Prepaid insurance	24,980	(23,558)
Deposits	-	(6,500)
Accounts payable	(836,230)	(17,831)
Accrued expenses	(119,830)	48,602
Deferred revenue	(17,359)	(148,962)
Net cash provided (used) by operating activities	<u>(342,398)</u>	<u>11,148</u>
Cash flows from investing activities:		
Purchases of land, building and equipment	(1,425,956)	(8,661,121)
Proceeds from sale of property and equipment	39,899	22,332
Proceeds from sale of investments	592,812	524,611
Purchases of investments	(407,326)	(474,761)
Change in notes receivable	1,587	1,470
Net cash used by investing activities	<u>(1,198,984)</u>	<u>(8,587,469)</u>
Cash flows from financing activities:		
Proceeds from notes payable and line of credit	1,731,512	8,180,925
Principal payments on notes payable and line of credit	(148,205)	(450,466)
Net cash provided by financing activities	<u>1,583,307</u>	<u>7,730,459</u>
Net increase (decrease) in cash and cash equivalents	41,925	(845,862)
Cash and cash equivalents - beginning of year	<u>1,733,503</u>	<u>2,579,365</u>
Cash and cash equivalents - end of year	<u>\$ 1,775,428</u>	<u>1,733,503</u>
<u>Supplemental disclosures of cash flow information:</u>		
Interest paid	<u>\$ 438,320</u>	<u>216,774</u>

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

Boys and Girls Clubs of the Tennessee Valley

Notes to Financial Statements

June 30, 2017 and 2016

(1) Nature of Activities and Significant Accounting Policies

(a) Nature of Activities

The Boys and Girls Clubs of the Tennessee Valley (the Organization) is a nonprofit corporation that provides services based on principles of behavioral guidance which will promote health, social education, vocational, character and leadership development of their membership.

(b) Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards, *Financial Statements of Not-for Profit Organizations*. Under this standard, 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. The financial statements are prepared on an accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

(c) Promises to Give

Contributions are recognized when a donor makes a written promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in permanent or temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Promises to give that extend beyond one year from the end of the fiscal year are recorded at their estimated present values, discounted at 6%.

(d) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all unrestricted and temporarily restricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

(e) Accounts Receivable

Accounts receivable primarily consists of the following: (1) grants receivable – routine revenues receivable from federal, state and local governments; (2) fee vouchers receivable – revenues from the Department of Human Services for child care programs at Boys and Girls Club Centers in order to help with the support to allow families to work and/or attend school while promoting child physical, emotional, educational and social development; and (3) other receivables – primarily made up of revenues due from the Tennessee Alliance of Boys and Girls Clubs, Inc. All of these receivables are considered fully collectible. Therefore, an allowance for uncollectible accounts is not considered necessary.

(continued)

Boys and Girls Clubs of the Tennessee Valley
Notes to Financial Statements
June 30, 2017 and 2016

(1) Nature of Activities and Significant Accounting Policies (continued)

(f) Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position as unrestricted, temporarily restricted, or permanently restricted, according to donor restrictions. Unrealized gains and losses are included in the statement of activities.

(g) Property, Equipment and Depreciation

Property and equipment in excess of \$500 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized at cost. Donations of property and equipment are recorded as support at their estimated fair value. 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. Depreciation expense for the years ended June 30, 2017 and 2016 was \$569,532 and \$381,970, respectively, computed using the straight-line and declining balance methods over the estimated useful lives of the assets, which range from five to thirty-nine years.

(h) Compensated Absences

The Organization's policy concerning vacations allows for up to 40 hours of vacation time to roll over to the following year. Accrued compensated absences at June 30, 2017 and 2016 of \$46,619 and \$96,448, respectively, are included in accrued expenses.

(i) Functional Allocation of Expenses

The costs of providing the various program services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services.

(j) Donated Services

The Organization receives significant donated services from a substantial number of unpaid volunteers who assist the Organization in many of its activities. No amounts have been recognized in the statement of activities for donated services because the criteria for recognition under Statement of Financial Accounting Standards have not been satisfied.

(continued)

Boys and Girls Clubs of the Tennessee Valley
Notes to Financial Statements
June 30, 2017 and 2016

(1) Nature of Activities and Significant Accounting Policies (continued)

(k) Income Taxes

The Organization is exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and the Internal Revenue Service has determined that the Organization is not a private foundation under Internal Revenue Code Section 509(a). There were no unrecognized tax benefits identified or recorded as liabilities for the fiscal year 2017 and 2016.

The Organization's form 990, *Return of Organization Exempt from Income Tax*, for the years' 2014, 2015, 2016 and 2017 are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

(l) 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(2) Concentration of Credit Risk for Deposits Held in Bank

The Organization's bank deposits consist of various checking and money market accounts. At June 30, 2017 and June 30, 2016, the bank deposits exceeded Federal Deposit Insurance Corporation insurance limits by \$1,255,168 and \$1,190,051, respectively.

(3) Restrictions on Net Assets

Substantially all of the restrictions on net assets at June 30, 2017 and 2016, relate to funds raised through capital campaigns and the Organization's continuing endowment campaign. The newest capital campaign, which began in 2014, is to provide funds for a new building, technology upgrades and operations. The purpose of the previous capital campaigns is to provide funding for renovations of the Haslam Family Club University (formerly known as the Caswell location). Cash and promises to give raised through capital campaigns are temporarily restricted for campaign objectives until payments are made for the capital objectives. Interest earned on the temporary investment of such support is temporarily restricted.

There are no permanently restricted net assets for the years end June 30, 2017 and 2016.

(continued)

Boys and Girls Clubs of the Tennessee Valley
Notes to Financial Statements
June 30, 2017 and 2016

(3) Restrictions on Net Assets (continued)

At June 30, 2017 and 2016, restricted net assets consisted of the following:

	<u>2017</u>	<u>2016</u>
	<u>Temporarily Restricted</u>	<u>Temporarily Restricted</u>
Cash and cash equivalents	\$ 1,748,861	1,716,227
Investments	102,565	296,799
Capital unconditional promises to give:		
Caswell and Cansler Centers	-	6,572
2014-2018 Capital Campaign	1,231,246	2,018,662
Less:		
6% present value discount	(116,794)	(179,193)
Allowance for doubtful promises to give	(55,723)	(92,302)
	<u>\$ 2,910,155</u>	<u>3,766,765</u>

Capital unconditional promises to give are as follows at June 30, 2017:

Year Ended

<u>June 30</u>	
2018	\$ 458,066
2019	204,400
2020	151,800
2021	134,980
2022	130,000
2023	120,000
2024	30,000
2025	2,000
	<u>1,231,246</u>
6% present value discount	(116,794)
Allowance for doubtful promises to give	(55,723)
Net unconditional promises to give	<u>\$ 1,058,729</u>

(continued)

Boys and Girls Clubs of the Tennessee Valley

Notes to Financial Statements

June 30, 2017 and 2016

(3) Restrictions on Net Assets (continued)

Net assets were released from donor restrictions by satisfaction of donor requirements during the years ended June 30, 2017 and 2016, and were used for the following purposes:

	<u>2017</u>	<u>2016</u>
Debt service:		
Principal and interest	\$ 289,947	8,500
Meals and food	20,105	-
Supplies and other expenses	277,633	-
Salaries and benefits	162,562	184,010
Fundraising expenses	40,000	176,614
Building	-	1,056,163
Technology	-	11,906
Contracted services	1,000	-
Maintenance expense	-	180,110
Operations and program expenses	1,200,484	1,017,528
Buses and transportation expenses	200,525	277,713
Youthforce stipends	16,981	-
Other	158,615	-
	<u>\$ 2,367,852</u>	<u>2,912,544</u>

(4) Functional Allocation Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Expenses are charged directly to program, fund-raising, or management categories based on specific identification or management's allocation, based on expenditures and assessment of time and effort devoted to the respective functions. During the years ended June 30, 2017 and 2016, the Organization incurred no joint costs involving fundraising appeals.

(5) Fair Value Measurements

The Organization's investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(continued)

Boys and Girls Clubs of the Tennessee Valley

Notes to Financial Statements

June 30, 2017 and 2016

(5) Fair Value Measurements (continued)

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. Definitions of these inputs are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. When no level 1 inputs are available the Organization utilizes Level 2 inputs or Level 3 inputs. No Level 2 or Level 3 inputs were utilized in 2017 or 2016.

Investments at June 30, 2017 and 2016 are as follows:

		2017			2016		
		Cost	Fair Value (Level 1 Inputs)	Unrealized Gains (Losses)	Cost	Fair Value (Level 1 Inputs)	Unrealized Gains (Losses)
Equities	\$	318,361	531,992	213,631	393,690	682,463	288,773
International equities		198,801	229,639	30,838	193,852	190,238	(3,614)
Fixed income		596,884	588,155	(8,729)	711,990	708,746	(3,244)
	\$	<u>1,114,046</u>	<u>1,349,786</u>	<u>235,740</u>	<u>1,299,532</u>	<u>1,581,447</u>	<u>281,915</u>

(6) Pension Plan

Effective October 1, 2009, the Organization's money purchase plan was amended to become a 401(k) plan. The amended plan allows eligible employees to make contributions of up to the maximum dollar limit which is set by law (\$18,000 for 2017 and 2016). Employees who will attain age 50 before the end of the calendar year may elect to defer additional "catch-up" contributions up to the maximum dollar limit which is set by law (\$6,000 for 2017 and 2016). The amended plan does not require an employer contribution. Effective November 15, 2013, the plan was restated to allow participants to borrow from their fund accounts with a maximum number of loans outstanding at two per participant. Pension contributions made for each participant represent a percentage of the participant's annual compensation. Pension expense for the years ended June 30, 2017 and 2016 was \$190,158 and \$200,145, respectively, which included a plan administration fee of \$5,025 and \$4,766, respectively.

Boys and Girls Clubs of the Tennessee Valley

Notes to Financial Statements

June 30, 2017 and 2016

(7) Related Party Transactions

The Organization's Board of Directors and their companies are given equal opportunity to bid on items and services required by the Organization. The Organization purchased insurance totaling \$135,367 in 2017 and \$126,675 in 2016 from a company in which a director of the Organization is a partner. The Organization also purchased insurance totaling \$2,884 in 2016 from a company in which a director of the Organization is company president.

At June 30, 2017 and 2016, capital campaign pledges due from various members of the Organization's Board of Directors were \$222,146 and \$342,813, respectively. The pledges are receivable through June 2025.

At June 30, 2017 and 2016, various members of the Organization's Board of Directors made operating pledges to the Organization totaling \$4,250 and \$9,033, respectively. The pledges are receivable through 2018.

(8) Donated Materials and Services

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at the date of receipt. Contributions of services are recognized in the financial statements if the services enhance or create nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The following is a list of non-cash donations valued at greater than \$30,000 by the Organization that are included within in-kind contributions:

Donor	Description	Estimated Fair Value	
		2017	2016
Knoxville Community Development Corporation	Utilities and maintenance	\$ 226,566	226,566

Donated material and supplies totaling \$98,229 and \$366,122 for the years ended June 30, 2017 and 2016, respectively, are included in special event revenue and expenses. The following is a list of special events donations valued at greater than \$30,000 by the Organization:

Donor	Description	Estimated Fair Value	
		2017	2016
Knoxville News Sentinel	Advertising	\$ -	38,500
WIVK (Cumulus)	Advertising	34,850	109,030
WBIR	Advertising	-	108,400

Boys and Girls Clubs of the Tennessee Valley
Notes to Financial Statements
June 30, 2017 and 2016

(9) Deferred Revenue

Deferred revenue activity for the years ended June 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Hall of Fame ticket sales	\$ 29,110	36,640
Hall of Fame sponsor donations	46,100	57,385
Hall of Fame other donations	5,006	2,200
Irwin Fishing Tournament	225	225
Anderson County Golf sponsor donations	-	350
Anderson County Golf entry fees	-	600
Loudon County Golf sponsor donations	2,000	-
Loudon County Golf entry fees	-	1,000
Reverse Rafle sponsor donations	-	1,400
	<u>\$ 82,441</u>	<u>99,800</u>

(10) Property, Equipment and Accumulated Depreciation

At June 30, 2017 and 2016, property, equipment and accumulated depreciation consist of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 569,578	568,777
Building and improvements	17,710,893	7,490,802
Educational equipment	204,954	207,604
Office furniture and equipment	1,587,459	1,521,187
Kitchen and food preparation equipment	64,879	67,324
Vehicles	474,862	478,362
Machinery and equipment	19,607	19,607
Fundraising equipment	42,401	42,401
Playground equipment	341,515	430,075
Construction in progress	-	9,740,651
	<u>21,016,148</u>	<u>20,566,790</u>
Less accumulated depreciation	<u>(5,092,234)</u>	<u>(5,092,096)</u>
	<u>\$ 15,923,914</u>	<u>15,474,694</u>

Boys and Girls Clubs of the Tennessee Valley
Notes to Financial Statements
June 30, 2017 and 2016

(11) Leases

The Organization leases its Vestal facilities from the City of Knoxville for \$37,938 per year. Under the terms of the agreement, the City has granted the Organization the perpetual right to occupy this location as long as the Organization provides its activities to youth. In the event the Organization no longer provides activities for youth, the City may terminate the lease at any time without cause upon 30 days written notice.

The Organization leases its Fort Craig facilities from the City of Maryville for \$500 a month. The current contract expires December 31, 2023.

The Organization entered into a lease agreement with Shafer Construction and Management, LLC on November 26, 2014 at a monthly rent of \$5,213 for the use of the Alexander Place building for administrative office use. This lease agreement was for an eighteen-month period beginning January 1, 2015 and ended June 30, 2016.

A contract was entered into August 1, 2014 with J.E. Murphree for lease of premises to be used for the operations of a boys and girls club at a rate of \$2,200 a month. This contract expires July 31, 2017.

The Organization has entered into three contracts for the lease of copiers. The first copier contract is for one copier for thirty-six months beginning August 14, 2014 at a rate of \$84 a month. The second copier contract is for five copiers and is for thirty-nine months beginning March 3, 2015 at a rate of \$1,084 a month. The third copier contract is for thirteen copiers for sixty months beginning January 19, 2016 with payments of \$1,498 a month.

Future minimum lease payments under non-cancelable leases at June 30, 2017 are as follows:

Years ended June 30	Operating Leases
2018	\$ 74,011
2019	61,916
2020	61,916
2021	52,927
2022	43,938

(12) Operating Unconditional Promises to Give

During fiscal year 2017, the Organization conducted an annual operating funds pledge campaign. The Organization had \$19,050 in pledge receivables at June 30, 2017 related to the annual pledge campaign. All pledges are due within one year or less. Allowance for uncollectible pledges totaled \$952.

Boys and Girls Clubs of the Tennessee Valley
Notes to Financial Statements
June 30, 2017 and 2016

(13) Line of Credit

On January 22, 2013, the Organization entered into a \$450,000 line of credit with a local bank to provide funds for short-term operating needs, capital campaigns and renovations or furnishing of locations. This line of credit was renewed on October 21, 2013 and again on August 29, 2014. The line of credit is collateralized by property on Dry Gap Pike. During the year ending June 30, 2016, drawdowns were made totaling \$535,000 and repayments were made of \$445,000 leaving a balance outstanding of \$435,000. During the year ended June 30, 2017, \$1,000 was repaid leaving a balance remaining of \$434,000. Interest is payable monthly at the bank's base rate, which was 4.5% at June 30, 2017. Interest expense on the line of credit for the years ended June 30, 2017 and 2016 was \$17,680 and \$10,886, respectively. On August 31, 2017, this line of credit was renewed for up to \$450,000.

(14) Notes Payable

The Organization has the following notes payable:

	<u>2017</u>	<u>2016</u>
(a) Note payable to a bank, payable in monthly installments of \$556 plus interest at 4.0% through September 5, 2018. This note is collateralized by a first mortgage on the Lenoir City facility.	\$ 15,096	21,768
(b) Construction promissory note to a bank with interest being paid monthly beginning May 5, 2015 consecutively through December 5, 2016. Monthly installments of principal and interest began January 5, 2017 to maturity on December 5, 2036. This note is secured by the absolute assignment of rents, leases, pledges and gift agreements, architects, engineers, and contract agreements, and a security agreement of real property.	10,447,283	8,856,304
	<u>10,462,379</u>	<u>8,878,072</u>
Less: current maturities	<u>(250,983)</u>	<u>(264,981)</u>
	<u>\$ 10,211,396</u>	<u>8,613,091</u>

(continued)

Boys and Girls Clubs of the Tennessee Valley

Notes to Financial Statements

June 30, 2017 and 2016

(14) Notes Payable (continued)

Future maturities of notes payable at June 30, 2017 are as follows:

Years ended June 30	
2018	\$ 250,983
2019	263,184
2020	265,226
2021	243,173
2022	200,278
Thereafter	<u>9,239,535</u>
	<u>\$ 10,462,379</u>

(15) Rental Income

On April 1, 2010 the Organization began renting a portion of its Lenoir City facilities on a month-to-month basis at a rate of \$1,250 per month. In August, 2012, this rate increased to \$1,750. On November 1, 2013, a three-year contract was signed for a monthly rate of \$2,050.

On September 19, 2010 the Organization entered into an agreement to lease a portion of its Halls/Powell facilities to White Stone Church at a rate of \$1,400 per month. This contract is to be reviewed annually.

Total rental income for these and other miscellaneous rental activity for 2017 and 2016 was \$41,381 and \$40,975, respectively.

(16) Service Agreement

On January 1, 2017, the Organization entered into a twelve-month service agreement with the Tennessee Alliance of Boys and Girls Clubs, Inc. and the Boys & Girls Clubs in Tennessee, both Tennessee nonprofit corporations. The agreement provides that the Organization will manage the administrative and operational services for the Boys & Girls Clubs in Tennessee and the Tennessee Alliance of Boys and Girls Clubs, Inc., and bill the Tennessee Alliance of Boys and Girls Clubs, Inc., on a quarterly basis for all costs incurred on behalf of the Tennessee Alliance of Boys and Girls Clubs, Inc. and the Boys & Girls Clubs in Tennessee. In addition, a quarterly contract fee is to be paid to the Organization in the amount of \$36,279. Reimbursements of expenses received under this agreement for the year ended June 30, 2017 totaled \$72,558.

Boys and Girls Clubs of the Tennessee Valley
Notes to Financial Statements
June 30, 2017 and 2016

(17) Endowment Funds

Board Designated

The Organization's Board of Directors had designated certain cash and investments as a general endowment. This endowment is not donor-restricted and therefore is reported as unrestricted net assets. The investment objectives are (1) to achieve a total annual return after expenses of 8-9% and (2) to achieve the highest level of income without undue risk and consistent with the need for long-term capital appreciation.

Changes in Board Designated Endowment funds for the years ended June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Board designated endowment funds, beginning of year	\$ 1,301,924	1,519,018
Contributions	58,720	1,000
Investment income	28,720	30,209
Release of restricted funds to endowment	-	22,398
Net realized/unrealized gains (losses)	76,218	(11,289)
Trust fees	(7,135)	(7,499)
Released for operations	<u>(203,423)</u>	<u>(251,913)</u>
Board designated endowment funds, end of year	\$ <u>1,255,024</u>	<u>1,301,924</u>

Temporarily Restricted

Endowment funds temporarily restricted due to donor restrictions totaled \$103,205 at June 30, 2017 and \$297,903, at June 30, 2016. The change in Temporarily Restricted Endowment funds of \$194,698 is due to income, gains, fees paid, and funds released from restrictions for operations.

(18) Commitments

On March 16, 2015, the Organization entered into an agreement with a local design-builder for the construction of a new facility of approximately 53,000 square feet and associated site improvements for a quoted maximum price of \$10,595,481. At June 30, 2016, \$9,175,238 of this contract has been expended and is included in construction in progress. During 2017, the construction of the new facility was completed.

On August 1, 2016, the Organization entered into a contract renewable up to five years with a local bus lines transporter to provide transportation for specific clubs for Knox County School instructional school days to be paid in installment payments of \$45,000 per month for 10 months.

On July 1, 2016, the Organization entered into a one-year agreement with a consulting firm for professional services at a cost of \$5,000 monthly.

Boys and Girls Clubs of the Tennessee Valley
Notes to Financial Statements
June 30, 2017 and 2016

(19) Subsequent Events

Subsequent events have been evaluated through March 19, 2018 which is the date the financial statements were available to be issued.

(20) Reclassifications

Certain items previously reported in the 2016 financial statements have been reclassified to facilitate the presentations in the 2017 financial statements.

ACCOMPANYING INFORMATION

Boys and Girls Clubs of the Tennessee Valley
Schedule of Principal Officials
June 30, 2017

BOARD MEMBERS

Michelle Hardin - Chair	Tony Johnson
Raymond Oakes, III - Vice Chair, Operations	Donna Johnston
Jacqueline Holdbrooks - Vice Chair, Communications	Barbara Jones
Russ Watkins - Vice Chair, Finance	Anita Lane
Angelique Adams	Debby Lutz
Jim Alexander	Dugan McLaughlin
Steve Arnett	Jim Mitchell
Josh Birdwell	Terry Payne
Brian DeBusk	Christy Phillips
John Dempster	David Rausch
Paul Feiden	Mac Stalcup
Joe Fielden, Jr.	Tracy Thompson
Mack Gentry	Henny Weissinger
Jeff Hagood	Andy White
Tim Irwin	Dean Winegardner
Tom Jensen	

STAFF

Bart McFadden - Chief Executive Officer
Kevin Ellsworth - Chief Financial Officer
Lorene Jackson - Chief Operating Officer

See independent auditors' report.

Boys and Girls Clubs of the Tennessee Valley
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2017

CFDA Number	Description	Balance July 1, 2016	Cash Receipts	Expenditures	Balance June 30, 2017
<u>Federal Awards:</u>					
<u>Major Programs:</u>					
Direct Assistance from U.S. Department of Education					
84.215F	Carol M. White Physical Education Program (PEP) Grant (S215F140206)	\$ (29,865)	403,674	405,790	(31,981) 1)
Direct Assistance from U.S. Department of Health and Human Services					
93.137	National Workforce Diversity Pipeline (NWDP) Program (CPIMP151114-01-00)	(30,240)	92,301	62,061	-
93.137	National Workforce Diversity Pipeline (NWDP) Program (CPIMP151114-02-00)	-	304,701	328,537	(23,836) 1)
	Total major programs	(60,105)	800,676	796,388	- (55,817)
<u>Non-major Programs:</u>					
Passed through State of Tennessee Department of Education from U.S. Department of Education					
84.287	21st Century Grant (33109-03013)	(148,729)	797,193 ##	775,000	(126,536) 1)
84.287	21st Century Grant (33109-05715)	(12,399)	138,994 ##	150,000	(23,405) 1)
Passed through Boys & Girls Clubs in Tennessee through State of Tennessee Department of Education from U.S. Department of Education					
84.287	21st Century Grant (33109-05515)	(11,327)	78,091 ##	75,054	(8,290) 1)
84.287	21st Century Grant (33109-00115)	(13,104)	162,250 ##	191,607	(42,461) 1)
Passed through Great Schools Partnership through State of Tennessee Department of Education from U.S. Department of Education					
84.287	21st Century Grant	-	13,738	13,738	-
Passed through State of Tennessee Department of Human Services from U.S. Department of Agriculture					
10.558	Child and Adult Care Food Program (CACFP)	-	615,506	615,506	-
Passed through State of Tennessee Department of Health from U.S. Department of Health and Human Services					
93.235	Abstinence Education Program (GR1647878)	(15,274)	35,971 ##	20,697	-
93.235	Title V State Abstinence Education Grant Program (1601TNAEGP)	-	2,223	3,196	(973) 1)
Passed through Boys & Girls Clubs in Tennessee from U.S. Department of Health and Human Services					
93.060	Competitive Abstinence Education Program (90AR0030-01-00)	(7,850)	26,378	18,528	-
Direct Assistance from U.S. Department of Education					
84.044A	TRIO Talent Search (PO44A110562)	(19,669)	86,047	66,378	-
84.044A	TRIO Talent Search (PO44A160667)	-	166,878	186,919	(20,041) 1)
Direct Assistance from the Appalachian Regional Commission					
23.001	ARC Youth Force	-	16,368	33,785	(17,417) 1)
Passed through Boys and Girls Clubs of America from U.S. Department of Justice					
16.726	Office of Justice Program (OJP-2016-41445)	-	6,396	9,135	(2,739) 1)
16.726	Office of Justice Program (OJP-2016-41446)	-	6,650	11,248	(4,598) 1)
16.726	Office of Justice Program (OJP-2016-41447)	-	8,523	11,542	(3,019) 1)
16.726	Office of Justice Program (OJP-2016-41448)	-	10,048	15,263	(5,215) 1)
16.726	Office of Justice Program (OJP-2015-36951)	(6,113)	14,300	8,187	-
16.726	Office of Justice Program (OJP-2015-36952)	(6,602)	16,802	10,200	-
16.726	Office of Justice Program (OJP-2015-36953)	(8,656)	20,863	12,207	-
16.726	Office of Justice Program (OJP-2015-36954)	(10,117)	22,607	12,490	-
Passed through Sea Research Foundation from U.S. Department of Justice					
47.076	STEM Mentoring Program (2015-JU-FX-0016)	(21,280)	45,765 8	24,485	-
47.076	STEM Mentoring Program (2015-JU-FX-0007)	-	2,572	31,507	(28,935) 1)
	Total non-major programs	(281,120)	2,294,163	2,296,672	(283,629)
	Total federal awards	(341,225)	3,094,839	3,093,060	(339,446)

See independent auditors' report.

(continued)

Boys and Girls Clubs of the Tennessee Valley
Schedule of Expenditures of Federal and State Awards (continued)
Year Ended June 30, 2017

CFDA		Balance	Cash		Balance
Number	Description	July 1, 2016	Receipts	Expenditures	June 30, 2017
<u>State Awards:</u>					
	Direct Assistance from Tennessee Department of Mental Health and Substance Abuse Services				
N/A	The Comprehensive Alcohol, Tobacco and Other Drug Prevention Services for Youth (37271)	\$ (31,961)	108,057	95,000	(18,904) 1)
	Direct Assistance from Tennessee Department of Education				
N/A	LEAP Grant (33109-07815)	(27,512)	158,546	151,576	(20,542) 1)
	Passed through Boys & Girls Clubs in Tennessee from Tennessee Department of Children's Services				
N/A	Child Abuse Prevention Grant	(1,517)	3,040	2,317	(794) 1)
	Direct Assistance from Tennessee Commission on Children and Youth				
N/A	Tennessee Commission on Children and Youth (TCCY)	(13,379)	33,975	26,985	(6,389) 1)
	Total state awards	<u>(74,369)</u>	<u>303,618</u>	<u>275,878</u>	<u>(46,629)</u>
	Total federal and state awards	\$ <u>(415,594)</u>	<u>3,398,457</u>	<u>3,368,938</u>	<u>(386,075)</u>

1) Due from grantor

Note A - Basis of Presentation

The schedule of expenditures of federal and state awards includes the federal and State of Tennessee grant activity of the Boys and Girls Clubs of the Tennessee Valley and is presented on the accrual basis of accounting.



Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Boys and Girls Clubs of the Tennessee Valley
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Boys and Girls Clubs of the Tennessee Valley (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Boys and Girls Clubs of the Tennessee Valley's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Boys and Girls Clubs of the Tennessee Valley's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

J. Wesley Edmondson • Tim Royster • Jenny C. Raines • Michelle Herrell • Jennifer M. Blackwood

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Boys and Girls Clubs of the Tennessee Valley's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HG & A Associates, P.C.

Knoxville, Tennessee
March 19, 2018



Independent Auditors' Report on Compliance for Each Major Program and on
Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Boys and Girls Clubs of the Tennessee Valley
Knoxville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited the Boys and Girls Clubs of the Tennessee Valley's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Boys and Girls Clubs of the Tennessee Valley's major federal programs for the year ended June 30, 2017. Boys and Girls Clubs of the Tennessee Valley's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Boys and Girls Clubs of the Tennessee Valley's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Boys and Girls Clubs of the Tennessee Valley's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Boys and Girls Clubs of the Tennessee Valley's compliance.

Opinion on Each Major Federal Program

In our opinion, Boys and Girls Clubs of the Tennessee Valley complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

J. Wesley Edmondson • Tim Royster • Jenny C. Raines • Michelle Herrell • Jennifer M. Blackwood

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Report on Internal Control over Compliance

Management of the Boys and Girls Clubs of the Tennessee Valley is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Boys and Girls Clubs of the Tennessee Valley's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Boys and Girls Clubs of the Tennessee Valley's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

HG & A Associates, P.C.

Knoxville, Tennessee
March 19, 2018

BOYS AND GIRLS CLUBS OF THE TENNESSEE VALLEY

Schedule of Findings and Questioned Costs Year Ended June 30, 2017

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report on the financial statements of the Boys and Girls Clubs of the Tennessee Valley expresses an unmodified opinion.
2. There were no deficiencies relating to the audit of the financial statements reported in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Boys and Girls Clubs of the Tennessee Valley were disclosed during the audit.
4. There were no deficiencies in internal control over major federal award programs disclosed during the audit as reported in the auditors' report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with the Uniform Guidance.
5. The auditors' report on compliance with requirements applicable to each major program and internal control over compliance in accordance with the Uniform Guidance for the Boys and Girls Clubs of the Tennessee Valley expresses an unmodified opinion.
6. There are no audit findings relative to major federal award programs for the Boys and Girls Clubs of the Tennessee Valley.
7. The Carol M. White Physical Education Program (CFDA No. 84.215F) and the National Workforce Diversity Pipeline Program (CFDA No. 93.137) were tested as major programs.
8. The threshold for distinguishing Type A and Type B programs was \$750,000.
9. Boys and Girls Clubs of the Tennessee Valley was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None. There were no prior year audit findings.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None. There were no prior year audit findings.