BOYS AND GIRLS CLUB OF DUMPLIN VALLEY

FINANCIAL STATEMENTS

Year Ended December 31, 2022

BOYS AND GIRLS CLUB OF DUMPLIN VALLEY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Boys and Girls Club of Dumplin Valley
White Pine, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Boys and Girls Club of Dumplin Valley, a nonprofit organization, which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys and Girls Club of Dumplin Valley as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted out audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Boys and Girls Club of Dumplin Valley and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Boys and Girls Club of Dumplin Valley's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Boys and Girls Club of Dumplin Valley's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Boys and Girls Club of Dumplin Valley's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Purkey, Carter, Compton, Swann & Carter, PLLC

Morristown, TN
October 5, 2023

BOYS AND GIRLS CLUB OF DUMPLIN VALLEY
STATEMENT OF FINANCIAL POSITION
December 31, 2022

ASSETS	
Cash	$ 1,398,504
Accounts receivable	25,476
Unconditional promises to give	85,000
Grants receivable	160,804
Property and equipment, net	651,677
Operating lease right-of-use asset	393,174
TOTAL ASSETS	$ 2,714,635
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	$ 27,434
Payroll liabilities	5,385
Deferred revenue	586,105
Operating lease liability	393,174
TOTAL LIABILITIES	1,012,098
NET ASSETS	
Net assets without donor restrictions:	
Undesignated	1,617,537
Net assets with donor restrictions	85,000
TOTAL NET ASSETS	1,702,537
TOTAL LIABILITIES AND NET ASSETS	$ 2,714,635

BOYS AND GIRLS CLUB OF DUMPLIN VALLEY
STATEMENT OF ACTIVITIES
Year ended December 31, 2022

REVENUE, GAINS AND OTHER SUPPORT	Without Donor Restrictions	With Donor Restrictions	Total
Contributions of cash and other financial assets			
Donations	$ 42,499	$ 35,000	$ 77,499
Local governments	94,000	50,000	144,000
Grants	601,482	-	601,482
Contributions of nonfinancial assets	162,214	-	162,214
Nutrition support	224,743	-	224,743
Program service fees	81,884	-	81,884
Lease income	50,081	-	50,081
Interest income	1,521	-	1,521
Miscellaneous	17,100	-	17,100
Fundraising events	153,792	-	153,792
Cost of direct benefit to donors	(32,442)	-	(32,442)
TOTAL REVENUE, GAINS AND OTHER SUPPORT	1,396,874	85,000	1,481,874
EXPENSE			
Program services	1,341,475	-	1,341,475
Management and general	375,923	-	375,923
Fundraising	137,280	-	137,280
TOTAL EXPENSE	1,854,678	-	1,854,678
CHANGE IN NET ASSETS	(457,804)	85,000	(372,804)
NET ASSETS AT BEGINNING OF YEAR	2,075,341	-	2,075,341
NET ASSETS AT END OF YEAR	$ 1,617,537	$ 85,000	$ 1,702,537

BOYS AND GIRLS CLUB OF DUMPLIN VALLEY
STATEMENT OF FUNCTIONAL EXPENSE
Year ended December 31, 2022

	Program Services	Supporting Services			
	Club Services	Management and General	Fundraising	Direct Fundraising Costs	Total
Payroll costs	$ 466,187	$ 230,274	$ 73,058	$ -	$ 769,519
Payroll taxes	35,130	17,353	5,505	-	57,988
Employee benefits	69,517	34,338	10,894	-	114,749
Total salaries and related expense	570,834	281,965	89,457	-	942,256
Insurance	35,686	17,627	5,592	-	58,905
Advertising	3,098	1,530	853	-	5,481
Utilities	48,028	5,336	-	-	53,364
Uniforms	5,098	-	-	-	5,098
Rent	131,856	65,130	20,664	-	217,650
Payments to affiliated groups	30,388	-	-	-	30,388
Program costs	492,905	-	-	-	492,905
Bad debts	10,665	-	-	-	10,665
Bus costs	1,075	-	-	-	1,075
Depreciation	3,956	440	-	-	4,396
Travel	7,886	3,895	3,711	-	15,492
Office expense	-	-	17,003	-	17,003
Cost of direct benefit to donors	-	-	-	32,442	32,442
TOTAL EXPENSE	$ 1,341,475	$ 375,923	$ 137,280	$ 32,442	$ 1,887,120
Less expenses included with revenue on the statement of activities	$ -	$ -	$ -	(32,442)	(32,442)
Total expenses included in the expense section of the statement of activities	$ 1,341,475	$ 375,923	$ 137,280	$ -	$ 1,854,678

See accompanying notes to financial statements.

BOYS AND GIRLS CLUB OF DUMPLIN VALLEY
STATEMENT OF CASH FLOWS
Year ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (372,804)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	4,396
Changes in operating assets:	
Accounts receivable	(14,124)
Grant receivable	(53,718)
Unconditional promises to give	(85,000)
Prepaid expense	3,979
Operating lease right-of-use asset	56,352
Changes in operating liabilities:	
Accounts payable	3,237
Payroll liabilities	5,385
Deferred revenue	586,105
Operating lease liability	(56,352)
NET CASH PROVIDED BY OPERATING ACTIVITIES	77,456
CASH AT BEGINNING OF YEAR	1,321,048
CASH AT END OF YEAR	$ 1,398,504

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Boys and Girls Club of Dumplin Valley (the Organization) was chartered as a nonprofit public benefit corporation by the State of Tennessee on November 20, 2007. The mission of the Organization is to provide positive places for children to go during non-school hours, particularly when there is no adult at home. Currently they administer four program sites for children and youth. Daily enrichment programs in areas such as sports, fitness and recreation, education and arts are available.

Basis of Accounting

The financial statements of Boys and Girls Club of Dumplin Valley have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board, Accounting Standards Codification (ASC) Topic 958 *Not-for-Profit Entities*. Under ASC Topic 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

The Organization accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board in ASC Topic 958. In accordance with ASC Topic 958, contributions received are recorded, depending on the existence or nature of any donor restrictions, as contributions with donor restrictions or contributions without donor restrictions.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The Organization receives amounts from grants and fundraising events that are considered nonreciprocal transactions and are accounted for as contributions.

Concentrations of Credit Risk

The Organization's concentration of credit risk consist principally of accounts receivable, grants receivable, and promises to give. Credit is granted to clients located throughout the area. The ability of these clients to perform on their credit is dependent on economic factors affecting the area. The Organization does not require collateral from its customers. Concentrations of credit risk with respect to grants receivable are limited due to the nature of the grant agreements. Concentrations of credit risk with respect to promises to give are dependent on factors affecting the economy in which contributors live and work.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Historically, differences between the amounts billed and collected have been insignificant. Accordingly, no provision is made for uncollectible amounts.

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized when conditions on which they depend are substantially met.

Property and Equipment

Property and equipment is capitalized at cost, or, if donated, at the approximate fair value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. The Organization's capitalization policy is $2,500 per item.

Functional Expenses

The costs of providing program and supporting activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated between Program Services and Supporting Services based on an analysis of those costs identifiable with a specific function or based on an analysis of personnel time and space utilized for the related service.

Compensated Absences

Employees of the Organization are entitled to paid vacations, sick days and other time off depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The policy of the Organization is to recognize the cost of the compensated absences when paid to employees.

Donated Assets

Noncash donations are recorded as contributions at their estimated fair values at the date of the donation.

Income Tax Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Organization is responsible for tax on any unrelated business income. The Organization is not classified as a private foundation.

Advertising

The Organization expenses advertising costs in the period they are incurred. The organization expensed $5,481 advertising costs for the year ended December 31, 2022.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Organization had no cash equivalents at December 31, 2022.

Cash balances held in financial institutions are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). At times amounts on deposit may exceed the federally insured limit. At December 31, 2022, $457,358 on deposit exceeded the federally insured limit.

Subsequent Events

The Organization evaluated subsequent events through the date of the auditor’s report, the date the financial statements were available to be issued.

Revenue Recognition

The Organization recognizes revenue when it satisfies a performance obligation by transfer of promised goods or services to customers in an amount that depicts the consideration the Organization expects to be entitled to in exchange for those goods or services. Revenue is not recognized unless the contract has been approved, it identifies each party’s rights, it identifies payment terms, it has commercial substance, and it is probable substantially all consideration will be collected by the Organization. The Organization has elected the practical expedients: (1) to account for contracts with similar characteristics as a portfolio of contracts rather than individually, (2) not to adjust the promised amount of consideration for the effects of significant financing component as it expects, at contract inception, that the period between when the Organization transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less; (3) not to disclose the transaction price allocated to unsatisfied or partially unsatisfied performance obligations as of the end of the reporting period when the performance obligations to contracts with an expected duration of less than one year.

When either party to a contract has performed, depending on the relationship between the Organization's performance and the customer's payment, the Organization presents a contract asset or contract liability on the statement of financial position. The Organization presents any unconditional rights to consideration separately on the statement of financial position as a receivable.

The Organization recognizes program services fees and lease income over time as performance obligations are satisfied, with service fees billed once a year and lease charges being billed monthly.

The Organization recognizes revenues from fundraising events and miscellaneous merchandise sales at a point in time upon transfer of the good or service.

NOTE B - RECEIVABLES

Accounts receivable of $25,476 at December 31, 2022, consist of amounts due for reimbursements from the State of Tennessee for feeding program reimbursement. No allowance for uncollectible accounts receivable was considered necessary.

Grants receivable consist of the following:

Alliance 21st Century	$ 14,505
LEAP	14,916
DOH Abstinence Education	2,745
OJP Mentoring	128,638
Total	$ 160,804

Differences between amounts allocated and collected from grants receivable have historically been insignificant. Accordingly, no provision is made for uncollectible amounts.

NOTE C - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at December 31, 2022 consist of $35,000 due from Charter Foods, Inc. and $50,000 due from the Jefferson County government. Differences between amounts promised and collected have historically been insignificant. Accordingly, no provision is made for uncollectible amounts. All promises to give are expected to be received within one year of the promise made.

NOTE D - DEFERRED REVENUE

Deferred revenue at December 31, 2022 consists of unearned grant contributions.

Deferred revenue consists of the following:

ARP Funds	$ 548,070
Trinity Implementation Grant	23,333
Governor's Supplemental Budget	14,702
Total	$ 586,105

NOTE E - PROPERTY AND EQUIPMENT

Land, buildings, and equipment are stated at cost or estimated fair market value if donated and on December 31, 2022, consisted of the following:

Furniture, fixtures and vehicles	$ 123,373
Leasehold improvements	20,229
Land	620,282
Accumulated depreciation	(112,207)
Property and equipment, net	$ 651,677

Depreciation expense for the year ended December 31, 2022 amounted to $4,396.

NOTE F - FUNDING

The Organization receives a substantial amount of support from the general public, grants and local governments for its operations. A major reduction of these funds, should this occur, may have a significant effect on future operations.

NOTE G - OPERATING LEASE

<u>Jefferson City Facility</u>

The facility used by the Organization in its Jefferson City location is owned by Jefferson County, Tennessee and is leased by the Organization for 75 years for $1 per year. Under the terms of the lease, the Organization pays for maintenance and utilities on the building.

<u>White Pine Facility</u>

On May 8, 2015, the Organization entered into a cooperative agreement and lease agreement with Freedom Fellowship Church (the Church) in which the Organization agreed to lease 14,500 feet of a building located in White Pine, Tennessee which the Church leases from a director who is part owner of the building. At the end of the five years, the Organization chose to renew the lease for an additional five years through June 2025.

The Organization pays rent of $2,750 on the first day of each month during the lease term. In addition, the Organization shall pay the Church an amount equivalent to one-month rent at the end of each calendar year as a common area maintenance fee. The lease term is for five years commencing on July 1, 2020. The Organization has the option to extend the lease term for an additional five year period at the end of the current lease term with a 10% increase which the Organization expects to exercise.

The Church has agreed to pay all taxes, licenses and other fees on the building. In addition, the Church is responsible for all repairs and maintenance required to be made to the premises. Utility services will be contracted by the Church and the Organization will reimburse the Church 60% of the cost of such utilities. The terms of the agreement dictate the Organization will carry liability insurance with minimum limits of liability in an amount not less than $1,000,000 for bodily injury or death and not less than $100,000 for property damage. The Church is responsible for providing fire and extended coverage for the building. Total operating lease expense for the year ended December 31, 2022 was $35,750. Minimum future lease payments required under the operating lease are described in the table below.

Newport Facility

On June 1, 2018, the Organization entered into a five-year lease agreement with Newport Housing Authority in which the Organization agreed to lease 10,800 feet of a building located in Newport, Tennessee. The Organization has the option to extend the lease term for one additional five-year period which the Organization expects to exercise. According to the terms of the new lease agreement, the Organization pays rent of $1,200 on the first day of each month during the lease term. The terms of the agreement dictate the Organization will carry liability insurance with minimum limits of not less than $1,000,000/$3,000,000. Total operating lease expense for the year ended December 31, 2022 was $14,400. Minimum future lease payments required under the operating lease are described in the table below.

Strawberry Plains Facility

On November 10, 2021, the Organization entered into a lease agreement with Strawberry Plains Presbyterian Church (the Church) in which the Organization will be allowed to use designated areas of the Church facility for the purpose of providing Club programs. The Organization pays rent of $1,000 on the 5th day of each month. The Organization is responsible for all repairs, maintenance and daily custodial care for all facilities used by the Organization. The terms of the agreement dictate the Organization will carry general liability and sexual misconduct insurance. The Organization agrees to pay 70% of the utility fees each month. The lease is through December 31, 2022 and unless terminated by either party by 30 day notice, will automatically renew for an additional one year. The Organization reasonably expects to extend the lease term an additional four periods. Total operating lease expense for the year ended December 31, 2022 was $12,000. Minimum future lease payments required under the operating lease are described in the table below.

Minimum future operating lease payments required are as follows:

		White Pine	Newport	Strawberry Plains	Total
2023	$	35,750	14,400	12,000	62,150
2024		35,750	14,400	12,000	62,150
2025		37,537	14,400	12,000	63,937
2026		39,325	14,400	12,000	65,725
2027		39,325	14,400	-	53,725
Thereafter		98,312	6,000	-	104,312
Total lease payments	$	285,999	78,000	48,000	411,999
Less: interest		(14,642)	(2,865)	(1,318)	(18,825)
Present value of net minimum payments	$	271,357	75,135	46,682	393,174

At December 31, 2022, the weighted-average remaining lease term for the operating leases is 80 months. The weighted-average discount rate associated with the operating leases as of December 31, 2022 is 1.37%. The Organization has elected to use a risk-free discount rate comparable to the lease terms for the discount rate for operating leases.

NOTE H - LEASE INCOME

On April 12, 2013, the Organization entered into a land lease agreement in which the Organization agreed to lease certain real property it owns located in Lebanon, Virginia to Charter Foods, Inc. The tenant pays rent of $2,292 on the 15th day of each month during the lease term. The lease term is for twenty-five years commencing on April 12, 2013. The monthly rent increases 10% over the prior term in years 6, 11, 16 and 21. The tenant shall have the option to extend the lease term for four additional periods of five years each. Lease income for the year ended December 31, 2022 amounted to $27,500.

Minimum future lease income payments from the Tenant required under the lease agreement in effect at December 31, 2022 are as follows:

2023	$	29,562
2024		30,250
2025		30,250
2026		30,250
2027		30,250
Thereafter		356,949
Total	$	507,511

On August 5, 2022, the Organization entered into a land lease agreement in which the Organization agreed to lease certain real property it owns located in Elizabethville, Pennsylvania to Charter Foods, Inc. The tenant pays rent of $4,000 on the 1st day of each month during the lease term. The lease term is for twenty-five years commencing on July 12, 2022. The monthly rent increases 10% over the prior term in years 6, 11, 16 and 21. The tenant shall have the option to extend the lease term for four additional periods of five years each. Lease income for the year ended December 31, 2022 amounted to $22,581.

Minimum future lease income payments from the Tenant required under the lease agreement in effect at December 31, 2022 are as follows:

2023	$ 48,000
2024	48,000
2025	48,000
2026	48,000
2027	50,400
Thereafter	1,198,824
Total	$ 1,441,224

NOTE I - EMPLOYEE BENEFIT PLANS

The Organization has adopted a retirement plan for certain eligible employees. The plan is funded by employer contributions of 5% of each eligible employee's salary. Employer contributions to the plan amounted to $23,460 for the year ended December 31, 2022.

NOTE J - LIQUIDITY

Boys and Girls Club of Dumplin Valley has $1,584,784 of financial assets available within one year of the Statement of Financial Position date to meet cash needs for general expenditures consisting of cash of $1,398,504, accounts receivable of $25,476 and grants receivable of $160,804. None of these financial assets are subject to donor or other restrictions that make them unavailable for general expenditures within one year of the Statement of Financial Position date.

The Organization has unconditional promises to give in the amount of $85,000 restricted by time and when payment is received can be used for general expenditures. The unconditional promises to give are subject to implied time restrictions but are expected to be collected within one year.

NOTE K - CONTRIBUTED NONFINANCIAL ASSETS

The Organization received in-kind donations of rent, advertising and software of $162,214 with a corresponding amount included in expense during the year. Contributed nonfinancial assets and expense consist of the following:

Donation facility usage – White Pine	$	39,500
Donation facility usage – Jefferson City		48,000
Donation facility usage – Newport		39,600
Donation facility usage – Strawberry Plains		18,000
Donation facility usage – Warehouse space		10,400
Donation advertising – Standard Banner		5,114
Donation – Software		1,600
Total	$	162,214

NOTE L - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consists of amounts due from Charter Foods, Inc. in the amount of $35,000 and Jefferson County government in the amount of $50,000. Both amounts are restricted due to time at December 31, 2022.

NOTE M - REVENUE FROM CONTRACTS WITH CUSTOMERS

Disclosure of Disaggregated Revenue

For the year ended December 31, 2022, revenues recognized from goods or services transferred to customers at a point in time were $37,631.

For the year ended December 31, 2022, revenues recognized from goods or services transferred to customers over time were $131,966.

The Organization’s revenues, results of operations, and cash flows are affected by separate factors, including general economic conditions, geographical locations of customers, and type of contract. Contracts with clients are not typically considered long-term due to the structure of client agreements.

Disclosure of Contract Assets, Contract Liabilities and Receivables

The Organizations had no contract assets, liabilities or receivables from contracts with customers at December 31, 2022.

NOTE N - IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

In September 2020, the Financial Accounting Standards Board (FASB) issued Account Standards Update (ASU) 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* As of January 1, 2022, the Organization adopted ASU 2020-07, which addressed presentation and disclosure of contributed nonfinancial assets. The adoption of ASU 2020-07 became effective for annual periods beginning after June 15, 2021.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). Effective January 1, 2022, the Organization adopted FASB ASC 842, *Leases.* The new standard establishes a right of use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases are classified as either finance or operation, with classification affecting the pattern of expense recognition in the statement of activities. Leases with a term of less than 12 months will not record a ROU asset and lease liability and the payments will be recognized in the change in net assets on a straight-line basis over the lease term.

The Organization elected to adopt FASB ASC 842, *Leases,* using the optional transition method that allows the Organization to initially apply the new lease standard at the adoption date and recognized a cumulative effect adjustment to the opening balance of nets assets in the period of adoption. The Organization elected to adopt the package of practical expedients permitted under the transition guidance within the new standard. The Organization concluded that the adoption of the new standard did not require any adjustments to the opening balance of net assets.