

SQUASHBUSTERS, INC.

FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015

SQUASHBUSTERS, INC.

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Dorothy F. Di Pesa, CPA
John F. Oteri, CPA

Board of Directors
Squashbusters, Inc.
795 Columbus Avenue
Roxbury Crossing, MA 02120-2108

Re: Independent Auditor's Report

Ladies and Gentlemen:

Report on Financial Statements

We have audited the accompanying financial statements of Squashbusters, Inc. (a Massachusetts nonprofit organization), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Squashbusters, Inc. at August 31, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Respectfully submitted,

DI PESA AND COMPANY

Di Pesa & Company

Certified Public Accountants
Quincy, Massachusetts
January 6, 2017

SQUASHBUSTERS, INC.**STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2016 AND 2015****ASSETS**

	<u>2016</u>	<u>2015</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 567,057	\$ 590,808
Contributions Receivable	495,000	90,000
Prepaid Expenses	<u>20,899</u>	<u>9,302</u>
<u>TOTAL CURRENT ASSETS</u>	1,082,956	690,110
<u>INVESTMENTS</u>		
Endowment Investments:		
Board Designated	7,629,744	6,897,200
Temporarily Restricted	1,558,178	1,531,644
Permanently Restricted	<u>637,318</u>	<u>637,318</u>
	9,825,240	9,066,162
Deferred Compensation Plan	<u>422,865</u>	<u>396,019</u>
<u>TOTAL INVESTMENTS</u>	10,248,105	9,462,181
<u>OTHER ASSETS</u>		
Property and Equipment, at Cost:		
Furniture and Equipment	202,486	148,090
Automobiles	225,485	177,611
Leasehold Improvements	<u>5,769,292</u>	<u>5,763,446</u>
	6,197,263	6,089,147
Less: Accumulated Depreciation	<u>(1,668,464)</u>	<u>(1,493,146)</u>
Net Property and Equipment	4,528,799	4,596,001
Long-Term Contributions Receivable	<u>769,627</u>	<u>166,676</u>
<u>TOTAL OTHER ASSETS</u>	5,298,426	4,762,677
<u>TOTAL ASSETS</u>	\$ 16,629,487	\$ 14,914,968

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Accrued Expenses	\$ 47,040	\$ 39,024
<u>OTHER LIABILITIES</u>		
Deferred Compensation Liability	<u>\$ 118,096</u>	<u>\$ 59,048</u>
<u>TOTAL LIABILITIES</u>	165,136	98,072
<u>NET ASSETS</u>		
Unrestricted:		
Operating	5,305,112	5,460,914
Board Designated	<u>7,629,743</u>	<u>6,897,200</u>
Total Unrestricted	12,934,855	12,358,114
Temporarily Restricted	2,892,178	1,821,464
Permanently Restricted	<u>637,318</u>	<u>637,318</u>
<u>TOTAL NET ASSETS</u>	16,464,351	14,816,896
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$ 16,629,487	\$ 14,914,968

See accompanying notes to financial statements

SQUASHBUSTERS, INC.

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2016**

	<u>Unrestricted</u> <u>Net Assets</u>	<u>Temporarily</u> <u>Restricted</u> <u>Net Assets</u>	<u>Permanently</u> <u>Restricted</u> <u>Net Assets</u>	<u>Total</u> <u>Net Assets</u>
<u>SUPPORT AND REVENUE</u>				
Contributions, Gifts and Grants	\$ 614,179	\$ 1,317,000	\$ -	\$ 1,931,179
Reimbursed Program Expenses	9,588	-	-	9,588
Special Events - Income	1,534,399	-	-	1,534,399
- Expenses	(164,925)	-	-	(164,925)
Investment Income				
Interest Income	17,710	1,228	-	18,938
Dividend Income	44,773	3,060	-	47,833
Realized Gains	136,139	9,443	-	145,582
Unrealized Gains	263,131	16,426	-	279,557
Investment Expenses	(52,227)	(3,623)	-	(55,850)
Net Assets Released from Restrictions:				
Satisfaction of Donor Restrictions	<u>272,820</u>	<u>(272,820)</u>	-	-
<u>TOTAL SUPPORT AND REVENUE</u>	2,675,587	1,070,714	-	3,746,301
<u>FUNCTIONAL EXPENSES</u>				
Program Services	1,528,878	-	-	1,528,878
Fundraising	311,116	-	-	311,116
Management and General	<u>258,852</u>	-	-	<u>258,852</u>
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>2,098,846</u>	-	-	<u>2,098,846</u>
<u>CHANGE IN NET ASSETS</u>	576,741	1,070,714	-	1,647,455
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>12,358,114</u>	<u>1,821,464</u>	<u>637,318</u>	<u>14,816,896</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 12,934,855</u>	<u>\$ 2,892,178</u>	<u>\$ 637,318</u>	<u>\$ 16,464,351</u>

See accompanying notes to financial statements

SQUASHBUSTERS, INC.

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2015**

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Net Assets</u>	<u>Total Net Assets</u>
<u>SUPPORT AND REVENUE</u>				
Contributions, Gifts and Grants	\$ 652,603	\$ 232,000	\$ -	\$ 884,603
Reimbursed Program Expenses	6,238	-	-	6,238
Special Events - Income	1,282,936	-	-	1,282,936
- Expenses	(120,444)	-	-	(120,444)
Investment Income				
Interest Income	164	5	-	169
Dividend Income	217,393	181,363	-	398,756
Realized Gains	84,933	70,857	-	155,790
Unrealized Losses	(580,939)	(481,332)	-	(1,062,271)
Investment Expenses	(21,198)	(17,683)	-	(38,881)
Net Assets Released from Restrictions				
Satisfaction of Donor Restrictions	<u>2,269,402</u>	<u>(269,402)</u>	<u>(2,000,000)</u>	<u>-</u>
<u>TOTAL SUPPORT AND REVENUE</u>	3,791,088	(284,192)	(2,000,000)	1,506,896
<u>FUNCTIONAL EXPENSES</u>				
Program Services	1,303,602	-	-	1,303,602
Fundraising	309,350	-	-	309,350
Management and General	<u>188,093</u>	<u>-</u>	<u>-</u>	<u>188,093</u>
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>1,801,045</u>	<u>-</u>	<u>-</u>	<u>1,801,045</u>
<u>CHANGE IN NET ASSETS</u>	1,990,043	(284,192)	(2,000,000)	(294,149)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>10,368,071</u>	<u>2,105,656</u>	<u>2,637,318</u>	<u>15,111,045</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 12,358,114</u>	<u>\$ 1,821,464</u>	<u>\$ 637,318</u>	<u>\$ 14,816,896</u>

See accompanying notes to financial statements

SQUASHBUSTERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED AUGUST 31, 2016

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
<u>EXPENSES</u>				
Payroll	\$ 952,521	\$ 232,636	\$ 77,545	\$ 1,262,702
Depreciation Expense	120,344	-	54,974	175,318
Program Expenses - Other	178,247	-	-	178,247
Employee Benefits	81,923	16,785	4,082	102,790
Payroll Taxes	70,074	24,384	8,124	102,582
Deferred Compensation Expense	-	-	59,048	59,048
Software Licensing	4,213	-	9,985	14,198
Insurance Expense	41,825	7,966	2,654	52,445
Development Expense	-	20,060	-	20,060
Transportation	10,986	-	-	10,986
Telephone and Internet Services	13,375	-	1,813	15,188
Financial Fees	-	-	2,732	2,732
Professional Fees	11,195	-	25,795	36,990
Occupancy Expense	19,104	-	-	19,104
Postage and Printing	5,137	8,089	5,318	18,544
Supplies	8,117	-	902	9,019
Recognition & Appreciation	1,743	256	-	1,999
Meetings and Conferences	633	-	4,561	5,194
Staff Expenses	6,930	-	-	6,930
Memberships	50	940	-	990
Advertising and Recruiting	2,461	-	1,319	3,780
	<u>2,461</u>	<u>-</u>	<u>1,319</u>	<u>3,780</u>
<u>TOTAL EXPENSES</u>	<u>\$ 1,528,878</u>	<u>\$ 311,116</u>	<u>\$ 258,852</u>	<u>\$ 2,098,846</u>

See accompanying notes to financial statements

SQUASHBUSTERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED AUGUST 31, 2015

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
<u>EXPENSES</u>				
Payroll	\$ 797,685	\$ 222,203	\$ 64,754	\$ 1,084,642
Depreciation Expense	127,575	-	10,379	137,954
Program Expenses - Other	165,091	-	-	165,091
Employee Benefits	78,682	11,680	8,105	98,467
Payroll Taxes	66,424	16,999	4,954	88,377
Deferred Compensation Expense	-	-	59,048	59,048
Insurance Expense	35,368	6,736	2,244	44,348
Development Expense	-	17,618	-	17,618
Telephone and Internet Services	13,405	-	1,818	15,223
Financial Fees	-	12,358	2,744	15,102
Professional Fees	9,250	-	16,327	25,577
Occupancy Expense	7,705	-	-	7,705
Postage and Printing	-	10,248	4,294	14,542
Supplies	-	2,800	2,635	5,435
Recognition & Appreciation	-	8,269	-	8,269
Equipment Rental	-	-	4,209	4,209
Meetings and Conferences	-	274	4,838	5,112
Staff Expenses	2,417	-	-	2,417
Memberships	-	165	-	165
Advertising and Recruiting	-	-	1,744	1,744
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL EXPENSES</u>	<u>\$ 1,303,602</u>	<u>\$ 309,350</u>	<u>\$ 188,093</u>	<u>\$ 1,801,045</u>

See accompanying notes to financial statements

SQUASHBUSTERS. INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 1,647,455	\$(294,149)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) By Operating Activities		
Depreciation	175,318	137,954
Gain on Sale of Investments	(145,582)	(155,790)
Investment Income Reinvested	(66,636)	(307,175)
Unrealized (Gain) Loss on Investments	(279,557)	1,062,271
(Increase) Decrease in Assets:		
Contributions Receivable	(1,007,951)	(24,801)
Prepaid Expenses	(11,597)	(9,302)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	8,016	27,023
Deferred Compensation Plan	59,048	59,048
	<u>378,514</u>	<u>495,079</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
<u>CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES</u>		
Purchase of Investments	(14,298,919)	(2,329,905)
Sale of Investments, Net of Dividend Reinvestments	14,004,772	1,977,192
Purchase of Property and Equipment	(108,118)	(45,056)
	<u>(402,265)</u>	<u>(397,769)</u>
<u>NET CASH USED BY INVESTING ACTIVITIES</u>		
<u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	(23,751)	97,310
<u>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</u>	<u>590,808</u>	<u>493,498</u>
<u>CASH AND CASH EQUIVALENTS, END OF YEAR</u>	<u>\$ 567,057</u>	<u>\$ 590,808</u>

See accompanying notes to financial statements

SQUASHBUSTERS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

1. NATURE OF OPERATION

Squashbusters, Inc. (the Organization), a Massachusetts nonprofit organization, is an intensive urban youth program serving 300 middle school, high school and college students per year in Boston and Lawrence, Massachusetts. The Organization also has plans for an additional location in Providence, Rhode Island with an anticipated opening in early 2018. The Organization uses the sport of squash in combination with academic tutoring and enrichment, community service, summer opportunities and hands-on college counseling, to achieve three specific outcomes: (1) improvement in long-term health and wellness; (2) college access and success – matriculation, perseverance and graduation and; (3) positive character development. The Organization serves its students continuously from the start of middle school until they graduate high school and enroll in college. The Organization then supports every student's journey through college to graduation. Students will spend approximately 100 days each school year, from grades 6 and 7 through grade 12 in direct engagement with the program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represents resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represents resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

B. Contributions and Donor Restrictions

The Organization reports use-restricted contributions as restricted support, if received with donor stipulations that limit, specify or otherwise restrict the use of such contributions. Either temporarily or permanently restricted net assets are increased, as appropriate. When donor restrictions expire, either by funds for the specified purpose or by expiration of time restrictions, temporarily restricted net assets are reclassified as unrestricted and reported in the statement of activities as net assets released from restrictions. The donors of permanently restricted net assets may permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

C. Contributions Receivable

Contributions receivable represent unconditional promises to give. Unconditional promises are carried at an amount equal to uncollected revenue less an allowance for doubtful accounts.

SQUASHBUSTERS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

C. Contributions Receivable (Continued)

The Organization provides an allowance for doubtful accounts equal to estimated bad debt losses. In determining this allowance, objective evidence that a single receivable is uncollectible as well as a historical pattern of collections of receivables that indicate the receivables may not be collectible is considered at each statement of financial position date. No allowance for doubtful accounts was required at August 31, 2016 and 2015.

D. Investments

Investments in securities with readily determinable fair values are valued at their fair values in the statement of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as an increase or decrease in unrestricted net assets unless the income or loss is restricted by donor or by law. Investment income or loss (including gains and losses on investments, interest and dividends) on permanently restricted net assets is included in the statement of activities as an increase or decrease in temporarily restricted net assets.

Investments consist of permanently restricted net assets and related unappropriated earnings as well as unrestricted net assets designated by the board of directors to provide investment income for the long-term benefit of the Organization. Board designated investments and related investment income are recorded as unrestricted net assets.

E. Concentrations of Credit Risk

The Organization is exposed to credit and market risk on its cash and cash equivalents, contributions receivable and investments. The Organization maintains cash and cash equivalents at certain financial institutions in amounts which exceed federally insured limits. The Organization's bank account exceeds the federally insured limit by \$317,057 and \$354,521 as of August 31, 2016 and 2015, respectively.

Contributions receivable consist primarily of amounts due from individuals, corporations, and foundations in the Greater Boston area. Risk is mitigated by the number and credit worthiness of contributors.

Investments have been diversified among issuers, industries, and geographic regions in order to manage market risks.

SQUASHBUSTERS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

F. **Fair Value Measurements**

Certain expanded disclosures are required regarding the sources of how the fair value of certain financial assets and liabilities are measured by establishing a fair value hierarchy that prioritizes inputs used to measure fair value. Such assets consist of items carried at fair value on a recurring basis and consist primarily of investments and financial instruments which are valued based upon quoted prices in active or brokered markets for identical or similar assets or liabilities.

The fair value measurement hierarchy is as follows:

- Level 1 – Quoted market prices for identical assets
- Level 2 – Significant other observable inputs
- Level 3 – Significant unobservable inputs

All of the Organization's inputs for investments are Level 1 inputs.

G. **Cash and Cash Equivalents**

For the purpose of the statements of cash flows, cash is considered to be the cash balance used in operations and shown on the statement of financial position and may include cash equivalents purchased with original maturities of three months or less.

H. **Property and Equipment**

Property and equipment is stated at cost. Amounts of \$1,000 or more are capitalized. Depreciation is computed using the straight-line method over the assets' useful lives. Depreciation expense of \$175,318 and \$137,954 has been recorded for the years ended August 31, 2016 and 2015, respectively.

I. **Income Taxes**

The Organization is a not-for-profit charitable organization and is exempt from Federal and state income taxes under the Internal Revenue Service Code Section 501(c)(3).

Uncertain Tax Positions

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the financial statements. Management does not believe its evaluation of tax positions will significantly change within twelve months of August 31, 2016. Any changes in tax positions will be recorded when the ultimate outcome becomes known. The Organization's income tax returns are subject to examination by taxing authorities generally for the years ended August 31, 2015, 2014 and 2013.

SQUASHBUSTERS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the reporting period. Actual results may differ from those estimates.

K. Management's Review of Subsequent Events

Management has reviewed and evaluated transactions and events ("subsequent events") after the statement of financial position date, August 31, 2016, and up to and including January 6, 2017, the date the financial statements were available to be issued. The objective of this review was to determine if any events occurred subsequent to August 31, 2016 which provided additional evidence of events which may have required recognition or disclosure in the accompanying financial statements. In management's opinion, no events have occurred which require recognition or disclosure in the financial statements.

L. Reclassifications

Certain items in the 2015 financial statements have been reclassified to conform to the current year's presentation.

3. PROMISES TO GIVE

Contributions receivable are unconditional promises to give, and consist of the following:

	<u>2016</u>	<u>2015</u>
Gross pledges receivable	\$ 1,280,000	\$ 260,000
Less: Unamortized discount	<u>(15,373)</u>	<u>(3,324)</u>
Net pledges receivable	<u>\$ 1,264,627</u>	<u>\$ 256,676</u>
Amounts due in:		
Less than one year	\$ 495,000	\$ 90,000
One to four years	<u>769,627</u>	<u>166,676</u>
	<u>\$ 1,264,627</u>	<u>\$ 256,676</u>

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 2%.

SQUASHBUSTERS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

4. INVESTMENTS

Investments are stated at fair value and consist of the following as of:

	<u>August 31, 2016</u>		
	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
Cash	\$ 205,219	\$ 205,219	\$ -
Certificates of Deposit	4,007,850	4,000,000	7,850
Equity Securities	3,577,505	3,381,366	196,139
Municipal Bonds	647,674	632,789	14,885
Corporate Fixed Income Bonds	99,995	95,619	4,376
Government Securities	469,457	468,122	1,335
Equity Mutual Funds	1,240,406	1,179,689	60,717
	<u>\$ 10,248,105</u>	<u>\$ 9,962,803</u>	<u>\$ 285,302</u>

	<u>August 31, 2015</u>		
	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
Cash and Cash Equivalents	\$ 239,697	\$ 239,697	\$ -
Treasury Mutual Funds	248,164	243,021	5,143
Equity Mutual Funds	6,027,109	6,280,974	(253,865)
Bond Mutual Funds	893,935	734,698	159,237
Commodity Mutual Funds	85,397	101,799	(16,402)
Real Estate Mutual Funds	367,383	404,736	(37,353)
International Mutual Funds	1,600,496	1,737,317	(136,821)
	<u>\$ 9,462,181</u>	<u>\$ 9,742,242</u>	<u>\$ (280,061)</u>

The following table shows the gross unrealized losses that are not deemed to be other-than temporarily impaired, and the fair value of investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at August 31, 2016 and 2015.

SQUASHBUSTERS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

4. INVESTMENTS (Continued)

\$ (in 000's)	2016					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<u>Description of Securities</u>						
Equity Securities	914	(107)	-	-	914	(107)
Municipal Bonds	277	(2)	-	-	277	(2)
Total	\$ 1,191	\$ (109)	\$ -	\$ -	\$ 1,191	\$ (109)

\$ (in 000's)	2015					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<u>Description of Securities</u>						
Mutual Funds:						
Commodity	\$ 85	\$ (16)	\$ -	\$ -	\$ 85	\$ (16)
Bond	196	(4)	-	-	196	(4)
Equity	610	(82)	-	-	610	(82)
Real Estate	367	(37)	-	-	367	(37)
International	824	(106)	326	(42)	1,150	(148)
Total	\$ 2,082	\$ (245)	\$ 326	\$ (42)	\$ 2,408	\$ (287)

5. ENDOWMENT

The Organization's endowment consists of one fund established to support the Organization's mission in perpetuity. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. The net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Board's Interpretation of Massachusetts' Uniform Prudent Management of Institutional Funds Act (UPMIFA)

The Board has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted contribution absent explicit donor stipulations to the contrary. As a result, the Organization classifies the following as permanently restricted net assets:

- a) The original value of the gifts donated to the permanent endowment,

SQUASHBUSTERS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

5. ENDOWMENT (Continued)

- b) The original value of subsequent gifts to the permanent endowment, and
- c) Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment 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.

Appropriation Policy

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a) The duration and preservation of the fund
- b) The purposes of the Organization and the donor-restricted endowment fund
- c) General economic conditions
- d) The possible effect of inflation and deflation
- e) The expected total return from income and the appreciation of investments
- f) Other resources of the Organization
- g) The investment policies of the Organization

Investment Policy

The investment policy provides broad guidelines that apply to the long-term management of the endowment's investment portfolio. The endowment is intended to support operating and capital needs in perpetuity. Therefore, the endowment is invested broadly across asset classes with long-term horizons in accordance with investment policy guidelines. Funds are invested for total return, consistent with prudent investment management and the control of investment risk. Total return, as used herein, includes interest and dividends as well as realized and unrealized gains and losses on investments. In addition, investments are made with the goal of preserving and enhancing principal over time. The Organization expects its endowment funds to generate a real rate of return (after inflation) of at least five percentage points per year. In order to mitigate investment risks, funds will be diversified among various investment classifications in accordance with guidelines outlined by the Board. The Board's investment policies and objectives are based on a three to five year timeline. There will be deviations from performance targets on a year-to-year basis.

The Organization's goal is to meet its current cash flow needs through non-restricted contributions and grow the endowment through the re-investment of endowment income. If non-restricted contributions are insufficient to meet the Organization's objectives, the endowment may be used to support the operations of the Organization. The Board may designate a one-time or annual draw in accordance with the Organization's appropriation policy. The endowment maintains appropriate liquidity to meet these potential withdrawals.

SQUASHBUSTERS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

5. ENDOWMENT (Continued)

Investment Policy (Continued)

The fund is allowed to invest in derivatives only to hedge exposure to certain risks, not as leverage or speculation. The fund is not allowed to invest in privately placed or non-marketable debt, restricted stock, direct investment in commodities, short sales, or direct investments in private placements, real estate, oil and gas venture capital, or funds comprised thereof.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature are reported as reductions in unrestricted net assets. There were no deficiencies in donor-restricted endowment funds as of August 31, 2016.

Changes in endowment net assets for the years ended August 31, 2016 and 2015 are as follows:

	<u>Year Ended August 31, 2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 6,897,200	\$ 1,531,644	\$ 637,318	\$ 9,066,162
Investment income, gains and losses:				
Interest income	17,710	1,228	-	18,938
Dividend income	44,118	3,060	-	47,178
Gain on sale of investments	136,139	9,443	-	145,582
Unrealized gain on investments	236,804	16,426	-	253,230
Investment expenses	(52,227)	(3,623)	-	(55,850)
Total investment return	382,544	26,534	-	409,078
Contributions and transfers	350,000	-	-	350,000
Endowment net assets, ending	<u>\$ 7,629,744</u>	<u>\$ 1,558,178</u>	<u>\$ 637,318</u>	<u>\$ 9,825,240</u>

Composition of endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,558,178	\$ 637,318	\$ 2,195,496
Board-designated endowment funds:	7,629,744	-	-	7,629,744
	<u>\$ 7,629,744</u>	<u>\$ 1,558,178</u>	<u>\$ 637,318</u>	<u>\$ 9,825,240</u>

SQUASHBUSTERS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

5. ENDOWMENT (Continued)

	<u>Year Ended August 31, 2015</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning	\$ 5,293,021	\$ 1,778,434	\$ 2,637,318	\$ 9,708,773
Investment income, gains and losses:				
Interest income	9	5	-	14
Dividend income	217,393	181,363	-	398,756
Gain on sale of investments	84,933	70,857	-	155,790
Unrealized gain on investments	(576,958)	(481,332)	-	(1,058,290)
Investment expenses	(21,198)	(17,683)	-	(38,881)
Total investment return	(295,821)	(246,790)	-	(542,611)
Contributions and transfers	1,900,000	-	(2,000,000)	(100,000)
Endowment net assets, ending	<u>\$ 6,897,200</u>	<u>\$ 1,531,644</u>	<u>\$ 637,318</u>	<u>\$ 9,066,162</u>

Composition of endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,531,644	\$ 637,318	\$ 2,168,962
Board-designated endowment funds	6,897,200	-	-	6,897,200
	<u>\$ 6,897,200</u>	<u>\$ 1,531,644</u>	<u>\$ 637,318</u>	<u>\$ 9,066,162</u>

6. COMMITMENTS

LEASE

The Organization leases its facilities under an operating lease agreement which expires in June 2053. Rent expense is \$100 per year. The lease may be extended for two additional terms of twenty-four and one half years each. In lieu of fair market rental, the Organization is required to share in the construction costs of the building. The Organization's construction payments of \$5,763,446 have been capitalized as leasehold improvements. The 18,348 square feet of space consists of leased office, classroom, and squash facilities. The property owner is entitled to fifty percent of the weekly squash court and classroom time. The Organization is required to use all or substantially all of the premises for a minimum of twenty hours per week on a continuous basis. In the event any continuous eighteen month

SQUASHBUSTERS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

6. LEASE COMMITMENTS (Continued)

period exists during which the Organization is not using or occupying the premises, then the Organization shall be deemed to have abandoned the premises and the property owner shall have the right to recapture the premises and terminate the lease without payment to the Organization. The property owner shall manage the property and pay for all costs of its operation, including capital repairs, improvements, replacements, janitorial services and utilities, during the initial term of the lease. During the two extension periods, the Organization shall pay fifty percent of the cost of operation of the premises. The Organization is required to set aside money in a capital expenditure collateral account to pay for these future costs. The capital expenditure collateral account shall be the property of the Organization. Upon exercising the lease extension, the Organization will relinquish control of the capital expenditure collateral account to the property owner beginning on the first day of the extension period. The Organization is not required to fund the capital expenditure collateral account until July 2033, at which point they must contribute an amount equal to \$4.87 per square foot of leased space or \$89,355 per year.

OTHER

The Organization has agreed to co-develop a new facility with the Moses Brown School in Providence, Rhode Island and provide \$4.7 million towards the construction costs. The Organization will enter into a long-term lease, with a projected opening in early 2018.

7. TEMPORARILY RESTRICTED NET ASSETS

	<u>2016</u>	<u>2015</u>
Annual support pledges - time restricted	\$ 264,000	\$ 235,000
Capital Campaign Contributions - Providence	1,070,000	-
Accumulated investment income	1,558,178	1,531,644
Capital Purchase Related:		
Laptop computers	-	9,820
Van	-	45,000
	<u>\$2,892,178</u>	<u>\$1,821,464</u>

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consists of various donor contributions to support the Organization's mission in perpetuity. Effective August 31, 2015, donors who had contributed \$2,000,000 notified the Organization their donations may be used to support the Organization's operations at the Board's discretion. As such, \$2,000,000 of permanently restricted net assets had been released from restriction for the year ended August 31, 2015. All permanently restricted net assets are included in investments at August 31, 2016.

SQUASHBUSTERS, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

9. DEFINED CONTRIBUTION RETIREMENT PLAN

The Organization has a defined contribution profit sharing plan which qualifies under Section 401(k) of the Internal Revenue Code (IRC). Under the Plan, employees meeting certain requirements may elect to contribute a percentage of their salary up to the maximum limits allowed by the IRC. Employer contributions and plan expense totaled \$35,251 and \$34,232 in 2016 and 2015, respectively.

10. DEFERRED COMPENSATION PLAN

In 2015 the Organization established a deferred compensation plan (the "plan") for certain key management employees under Section 457 (f) of the Internal Revenue Code. The Organization designated \$400,000 of its investments as held to fund its obligation under the plan.

The participants in the plan earn their contributions over a ten year period ending December 31, 2024. \$59,048 has been earned for each of the years ended August 31, 2016 and 2015, respectively, which is also reflected as the deferred compensation liability at August 31, 2016 and 2015. The Organization's payment obligations under the plan will occur in equal thirds on December 31, 2019, December 31, 2021 and December 31, 2024.