

BOYS AND GIRLS CLUBS OF TUCSON, INC.

Audited Financial Statements

For the years ended December 31, 2013 and 2012

BOYS AND GIRLS CLUBS OF TUCSON, INC.

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8-18



LUDWIG KLEWER & CO. PLLC

Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Boys and Girls Clubs of Tucson, Inc.

We have audited the accompanying financial statements of Boys and Girls Clubs of Tucson, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, 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.

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys and Girls Clubs of Tucson, Inc. as of December 31, 2013 and 2012, 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.

LUDWIG KLEWER & CO. PLLC
May 30, 2014

Chris Wm. Ludwig, CPA Julie S. Klewer, CPA, MBA Eric S. Rudner, CPA

4783 East Camp Lowell Drive Tucson, Arizona 85712
telephone 520 545 0500 facsimile 520 545 0555 www.ludwigklewer.com

BOYS AND GIRLS CLUBS OF TUCSON, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 1,370,505	\$ 1,384,237
Contributions and accounts receivable	38,825	53,494
Grants receivable	36,449	11,380
Unconditional promises to give, current portion	160,641	119,040
Prepaid expenses and other current assets	54,261	47,074
Investments (\$410,595 and \$413,944 pledged as collateral on deferred grant obligation at December 31, 2013 and 2012, respectively) - current portion	<u>1,672,866</u>	<u>1,526,051</u>
Total current assets	3,333,547	3,141,276
Unconditional promises to give, non-current portion	906,590	665,219
Property and equipment, net	4,164,432	4,500,876
Investments, non-current portion	<u>290,609</u>	<u>353,063</u>
Total assets	<u>\$ 8,695,178</u>	<u>\$ 8,660,434</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 59,928	\$ 39,524
Accrued expenses	74,437	59,208
Deferred revenue	30,367	122,226
Deferred grant obligation, current portion	35,000	35,000
Capital leases payable, current	12,142	10,546
Note payable, current	<u>4,829</u>	<u>4,526</u>
Total current liabilities	216,703	271,030
Deferred grant obligation, non-current portion	280,000	315,000
Capital leases payable, non-current portion	18,026	30,168
Note payable, non-current portion	<u>2,453</u>	<u>7,282</u>
Total liabilities	517,182	623,480
Net assets:		
Unrestricted	5,912,733	6,055,197
Temporarily restricted	1,547,263	1,263,757
Permanently restricted	<u>718,000</u>	<u>718,000</u>
Total net assets	<u>8,177,996</u>	<u>8,036,954</u>
Total liabilities and net assets	<u>\$ 8,695,178</u>	<u>\$ 8,660,434</u>

See independent auditors' report and
accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

STATEMENT OF ACTIVITIES
For the year ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:				
Special events	\$ 1,518,929	\$ -	\$ -	\$ 1,518,929
Contributions	360,232	898,260	-	1,258,492
Other grants	371,088	-	-	371,088
In-kind contributions	301,451	-	-	301,451
Investment income, net	239,595	-	-	239,595
Development fundraising	182,550	-	-	182,550
Government grants	144,235	-	-	144,235
Program service fees	67,998	-	-	67,998
United Way	67,879	-	-	67,879
Other revenues	25,959	-	-	25,959
Net assets released from restrictions:				
Satisfaction of donor restrictions	614,754	(614,754)	-	-
Total revenues and support	3,894,670	283,506	-	4,178,176
Expenses:				
Program services	2,424,200	-	-	2,424,200
Supporting services:				
General and administrative	411,857	-	-	411,857
Fund-raising	345,816	-	-	345,816
Special events - costs of direct donor benefits	855,261	-	-	855,261
Total expenses	4,037,134	-	-	4,037,134
Change in net assets	(142,464)	283,506	-	141,042
Net assets, beginning of year	6,055,197	1,263,757	718,000	8,036,954
Net assets, end of year	<u>\$ 5,912,733</u>	<u>\$ 1,547,263</u>	<u>\$ 718,000</u>	<u>\$ 8,177,996</u>
Nature of net assets:				
Unrestricted - undesignated	\$ 775,480	\$ -	\$ -	\$ 775,480
Unrestricted - board designated	914,676	-	-	914,676
Angel Charity collateral	410,595	-	-	410,595
Investment in property and equipment, net	3,811,982	-	-	3,811,982
Donor restricted - clubhouse/operating	-	1,502,228	-	1,502,228
Donor restricted - education	-	45,035	-	45,035
Donor restricted - endowments	-	-	718,000	718,000
	<u>\$ 5,912,733</u>	<u>\$ 1,547,263</u>	<u>\$ 718,000</u>	<u>\$ 8,177,996</u>

See independent auditors' report and accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

STATEMENT OF ACTIVITIES
For the year ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:				
Special events	\$ 1,477,098	\$ -	\$ -	\$ 1,477,098
Contributions	378,971	378,277	-	757,248
Other grants	407,406	-	-	407,406
In-kind contributions	246,616	-	-	246,616
Investment income, net	231,288	-	-	231,288
Government grants	191,136	-	-	191,136
Development fundraising	151,307	-	-	151,307
Program service fees	91,526	-	-	91,526
United Way	52,730	-	-	52,730
Other revenues	18,413	-	-	18,413
Gain on sale of property and equipment	10,500	-	-	10,500
Net assets released from restrictions:				
Satisfaction of donor restrictions	734,029	(734,029)	-	-
Total revenues and support	3,991,020	(355,752)	-	3,635,268
Expenses:				
Program services	2,325,264	-	-	2,325,264
Supporting services:				
General and administrative	334,548	-	-	334,548
Fund-raising	460,353	-	-	460,353
Special events- costs of direct donor benefits	795,894	-	-	795,894
Total expenses	3,916,059	-	-	3,916,059
Change in net assets	74,961	(355,752)	-	(280,791)
Net assets, beginning of year	5,980,236	1,619,509	718,000	8,317,745
Net assets, end of year	<u>\$ 6,055,197</u>	<u>\$ 1,263,757</u>	<u>\$ 718,000</u>	<u>\$ 8,036,954</u>
Nature of net assets:				
Unrestricted - undesignated	\$ 768,362	\$ -	\$ -	\$ 768,362
Unrestricted - board designated	774,537	-	-	774,537
Angel Charity collateral	413,944	-	-	413,944
Investment in property and equipment, net	4,098,354	-	-	4,098,354
Donor restricted - clubhouse/operating	-	1,222,955	-	1,222,955
Donor restricted - education	-	40,802	-	40,802
Donor restricted - endowments	-	-	718,000	718,000
	<u>\$ 6,055,197</u>	<u>\$ 1,263,757</u>	<u>\$ 718,000</u>	<u>\$ 8,036,954</u>

See independent auditors' report and accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2013

	Program Services	General and Administrative	Fund- Raising	Total
Payroll and related expenses	\$ 1,360,694	\$ 193,330	\$ 183,178	\$ 1,737,202
Depreciation	354,227	85,263	3,021	442,511
Supplies	268,246	14,075	24,782	307,103
Professional fees	98,328	68,288	115,540	282,156
Repairs and maintenance	114,949	18,154	1,171	134,274
Utilities	79,874	857	-	80,731
Insurance	57,126	6,225	2,555	65,906
Conferences and meetings	15,363	7,765	3,052	26,180
Transportation	23,840	1,378	838	26,056
Telephone	17,958	6,817	258	25,033
National and membership dues	10,652	2,385	2,130	15,167
Scholarships, awards and grants	11,948	-	-	11,948
Postage and shipping	3,182	2,586	4,628	10,396
Printing and publication	2,445	2,543	3,728	8,716
Interest expense	4,813	697	697	6,207
Miscellaneous	555	1,494	238	2,287
Total functional expenses	<u>\$ 2,424,200</u>	<u>\$ 411,857</u>	<u>\$ 345,816</u>	<u>\$ 3,181,873</u>

See independent auditors' report and
accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2012

	Program Services	General and Administrative	Fund- Raising	Total
Payroll and related expenses	\$ 1,331,232	\$ 166,806	\$ 230,204	\$ 1,728,242
Depreciation	354,865	84,193	3,259	442,317
Supplies	235,608	16,337	26,565	278,510
Professional fees	80,152	20,561	175,738	276,451
Repairs and maintenance	89,723	17,304	5,055	112,082
Utilities	72,637	786	-	73,423
Insurance	55,185	5,466	2,521	63,172
Transportation	32,342	1,653	513	34,508
Conferences and meetings	20,138	6,263	4,526	30,927
Telephone	16,850	5,896	-	22,746
National and membership dues	9,649	2,038	2,141	13,828
Printing and publication	4,387	3,049	4,804	12,240
Scholarships, awards and grants	8,188	-	-	8,188
Interest expense	6,342	940	855	8,137
Postage and shipping	2,853	2,318	4,149	9,320
Miscellaneous	5,113	938	23	6,074
Total functional expenses	<u>\$ 2,325,264</u>	<u>\$ 334,548</u>	<u>\$ 460,353</u>	<u>\$ 3,120,165</u>

See independent auditors' report and
accompanying notes to financial statements.

BOYS AND GIRLS CLUB OF TUCSON, INC.

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 141,042	\$ (280,791)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	442,511	442,317
Gain on sale of property and equipment	-	(10,500)
Donated property and equipment	(45,016)	(8,350)
Change in allowance for net present value, unconditional promises to give	(38,937)	(28,228)
Change in allowance for uncollectible promises to give	(5,900)	-
Net realized and unrealized gain on investments	(195,367)	(138,283)
Scheduled release of deferred grant obligation	(35,000)	-
Changes in operating assets and liabilities:		
Contributions and accounts receivable	(3,482)	(35,795)
Grants receivable	(6,918)	349,732
Unconditional promises to give	(238,135)	155,160
Prepaid expenses and other current assets	(7,187)	(1,584)
Accounts payable	20,404	7,368
Accrued expenses	15,229	(30,666)
Deferred revenue	(91,859)	(61,012)
Total adjustments	<u>(189,657)</u>	<u>640,159</u>
Net cash (used in) provided by operating activities	(48,615)	359,368
Cash flows from investing activities:		
Proceeds from sale of investments	1,030,178	794,043
Purchases of investments	(919,172)	(806,094)
Proceeds from sale of property and equipment	-	10,500
Purchases of property and equipment	<u>(61,051)</u>	<u>(191,212)</u>
Net cash provided by (used in) investing activities	49,955	(192,763)
Cash flows from financing activities:		
Repayments made on line of credit	-	(350,000)
Principal payments made on capital leases payable	(10,546)	(9,191)
Principal payments made on note payable	<u>(4,526)</u>	<u>(12,136)</u>
Net cash used in financing activities	<u>(15,072)</u>	<u>(371,327)</u>
Change in cash and cash equivalents	(13,732)	(204,722)
Cash and cash equivalents, beginning of year	1,384,237	1,588,959
Cash and cash equivalents, end of year	<u>\$ 1,370,505</u>	<u>\$ 1,384,237</u>

See independent auditors' report and
accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

1. Organization

Boys and Girls Clubs of Tucson, Inc. (Club) is a nonprofit corporation organized under the laws of the state of Arizona. The Club has been serving Tucson children since 1964. Its purpose is to sponsor, finance, promote and engage in juvenile delinquency prevention programs for disadvantaged children of Tucson. The Club operates six Clubhouses that served 6,162 children between the ages of 7 and 18. A majority of the Club's revenues are from contributions made by individuals and businesses within the community.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

The Club reports information regarding its financial position and activities according to three classes of net assets (unrestricted, temporarily restricted and permanently restricted) based upon the existence or absence of donor-imposed restrictions.

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Club and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Club. Generally, the donors of these assets permit the Club to use all or part of the income earned on any related investments for general or specific purposes.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

The Club considers cash and highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investments

The Club records investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Property and Equipment

Purchased property and equipment, with a cost of greater than \$1,000 and a useful life of greater than one year, is stated at cost. Donated property and equipment is recorded at estimated fair value on the date of donation. 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 Club reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Club reclassifies temporarily restricted net assets to unrestricted net assets at that time.

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

2. Summary of Significant Accounting Policies, Continued

Property and Equipment, continued

The cost of repairs and maintenance is charged to expense in the year incurred. Expenditures that increase the useful lives of the assets are capitalized. Upon the sale or retirement of depreciable assets, the related cost and accumulated depreciation are removed from the accounts. All gains or losses are reflected in revenue in the year of disposition. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings and building improvements	7-40 years
Equipment	5-7 years
Statues	7 years
Vehicles	5 years

Tax-Exempt Status

The Club is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC) and from Arizona income tax under Arizona Revised Statute section 43-1201(4). Therefore, no provision has been made for income taxes in the accompanying financial statements. In addition, the Internal Revenue Service (IRS) has determined that the Club is not a private foundation within the meaning of section 509(a) of the IRC.

The Club's policy is to disclose or recognize income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax positions. As of December 31, 2013, management is not aware of any uncertain tax positions that are potentially material. In addition, management is not aware of any matters which would cause the Club to lose its tax-exempt status.

The Club's federal Form 990, Return of Organization Exempt from Income Tax is generally subject to examination by the IRS for three years after the date it was filed. The Club's Arizona Form 99, Arizona Exempt Organization Annual Information Return is generally subject to examination by the Arizona Department of Revenue for four years after the date it was filed.

Volunteer Services and Donated Goods

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expenses

The Club allocates its expenses on a functional basis among its programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated by other reasonable methods.

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

3. Concentration Risk

As of January 1, 2013, the Federal Deposit Insurance Corporation (FDIC) insures interest-bearing cash accounts at banks up to \$250,000 per institution and no longer provides unlimited coverage for non interest-bearing accounts. Investments held by other institutions are covered up to \$500,000 under insurance provided by the Securities Investor Protection Corporation (SIPC). However, SIPC does not protect against losses in market value. At December 31, 2013 and 2012, the Club had cash and investments in the amount of \$2,548,142 and \$2,435,441, respectively, at various banks and institutions in excess of FDIC and SIPC limitations. It is the opinion of management that the solvency of the referenced financial institutions is not of concern at this time.

4. Accounts Receivable

Accounts receivable are considered to be fully collectible by management. Therefore, no allowance for doubtful accounts has been recorded. There are no receivables that are considered delinquent at December 31, 2013 and 2012.

5. Unconditional Promises to Give

During the year ended December 31, 2003, the Club launched an ongoing campaign to help raise funds for the Club. At December 31, 2013 and 2012, the balances due on pledges for this campaign are scheduled to be paid in future years as follows:

	2013	2012
2013	\$ -	\$ 132,141
2014	178,275	129,825
2015	178,075	128,325
2016	175,000	125,050
2017	175,000	375,000
Thereafter	500,000	-
Total unconditional promises to give	1,206,350	890,341
Less interest component at 3.25%	(128,519)	(89,582)
Less allowance for uncollectible promises receivable	(10,600)	(16,500)
Unconditional promises to give, net	1,067,231	784,259
Less current portion	(160,641)	(119,040)
Non-current portion	\$ 906,590	\$ 665,219

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

6. Investments

Investments at December 31, 2013 and 2012 are stated at fair value and consist of:

	2013	2012
Stocks	\$ 1,099,388	\$ 1,057,887
Corporate bonds	570,166	695,503
Mutual funds	293,921	125,724
Total investments	1,963,475	1,879,114
Less current portion	(1,672,866)	(1,526,051)
Investments, non-current portion	<u>\$ 290,609</u>	<u>\$ 353,063</u>

As discussed in Note 11, during June 2012, the Club executed a forgivable promissory note payable to Angel Charity for Children, Inc. In accordance with the terms of that agreement, investments at December 31, 2013 and 2012 include \$410,595 and \$413,944, respectively, pledged as collateral securing the note.

Investment income for the years ended December 31, 2013 and 2012 consists of:

	2013	2012
Net realized and unrealized gain	\$ 195,367	\$ 138,283
Interest and dividend income	61,609	108,880
Investment expense	(17,381)	(15,875)
Investment income, net	<u>\$ 239,595</u>	<u>\$ 231,288</u>

7. Fair Value Measurements

The Financial Accounting Standards Board has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Club has the ability to access.
- Level 2: Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

7. Fair Value Measurements, Continued

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2013 and 2012.

- *Stock, Corporate bonds, Mutual funds:* Valued at fair value based on national trade listing.
- *Unconditional promises to give:* Valued at net present value of anticipated receipts.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Club 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.

Fair values of assets measured on a recurring basis at December 31, 2013 and 2012 are:

Assets at Fair Value as of December 31, 2013				
	Level 1	Level 2	Level 3	Total
Stocks	\$ 1,099,388	\$ -	\$ -	\$ 1,099,388
Corporate bonds	570,166	-	-	570,166
Mutual funds:				
Large cap growth	236,367	-	-	236,367
Small cap diversified	57,554	-	-	57,554
Unconditional promises to give, net present value	-	-	1,067,231	1,067,231
Total assets	\$ 1,963,475	\$ -	\$ 1,067,231	\$ 3,030,706
Assets at Fair Value as of December 31, 2012				
	Level 1	Level 2	Level 3	Total
Stocks	\$ 1,057,887	\$ -	\$ -	\$ 1,057,887
Corporate bonds	695,503	-	-	695,503
Mutual funds:				
Large cap growth	81,863	-	-	81,863
Small cap diversified	43,861	-	-	43,861
Unconditional promises to give, net present value	-	-	784,259	784,259
Total assets	\$ 1,879,114	\$ -	\$ 784,259	\$ 2,663,373

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

7. Fair Value Measurements, Continued

The table below sets forth a summary of changes in the fair value of the Club's level 3 assets for the years ended December 31, 2013 and 2012:

<u>Unconditional Promises to Give, Net Present Value</u>	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 784,259	\$ 911,191
New unconditional promises to give	450,000	3,000
Unconditional promises to give collected	(122,191)	(158,160)
Unconditional promises to give deemed uncollectible	(5,900)	-
Change in net present value	<u>(38,937)</u>	<u>28,228</u>
Balance, end of year	<u>\$ 1,067,231</u>	<u>\$ 784,259</u>

All assets have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

8. Property and Equipment

Property and equipment at December 31, 2013 and 2012 consists of:

	<u>2013</u>	<u>2012</u>
Buildings and building improvements	\$ 7,853,744	\$ 7,846,444
Equipment	1,249,976	1,151,209
Statues	11,408	11,408
Vehicles	<u>214,206</u>	<u>214,206</u>
Total property and equipment	9,329,334	9,223,267
Less accumulated depreciation	<u>(5,164,902)</u>	<u>(4,722,391)</u>
Property and equipment, net	<u>\$ 4,164,432</u>	<u>\$ 4,500,876</u>

Three of the Club's recreational facilities, the Roy Drachman, Holmes Tuttle and Steve Daru Clubhouses, are subject to cooperative maintenance agreements with the City of Tucson, a municipal corporation of the state of Arizona. In general, the agreements provide for the Club to construct, own and operate recreational centers within the City of Tucson's parks. Legal title to the Steve Daru Clubhouse shall be, and remain, in the name of the Club through September 4, 2015. The Roy Drachman and Holmes Tuttle Clubhouse agreements expired, and as of this audit report date, are in negotiation for renewal. Each of the agreements provides a renewal option for an additional twenty-five years. Upon termination of the agreements, title to the recreational facilities will revert to the City of Tucson.

Two of the Club's recreational facilities, the Frank and Edith Morton and the Jim and Vicki Click Clubhouses, are subject to cooperative maintenance agreements with the Tucson Unified School District (TUSD). Legal title to the Frank and Edith Morton and the Jim and Vicki Click Clubhouses shall be, and remain, in the name of the Club through June 26, 2027 and October 31, 2031, respectively. Each of the agreements provides a renewal option for additional five-year successive terms by mutual agreement. Upon termination of the agreements, title to the recreational facilities will revert to the TUSD.

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

9. Capital Leases Payable

The Club is obligated under three capital leases for office equipment. The total cost of office equipment under these leases was \$56,845 and accumulated depreciation was \$25,243 and \$20,233 at December 31, 2013 and 2012, respectively.

	<u>2013</u>	<u>2012</u>
Mitel Phone Lease, requiring monthly installments of \$724 including interest through May 2016, collateralized by telephone equipment.	\$ 16,961	\$ 21,702
Lanier MF Lease, requiring monthly installments of \$239 including interest through August 2016, collateralized by a copier.	6,384	8,245
IKON Leasing Company, requiring monthly installments of \$380 including interest through March 2015, collateralized by a copier.	<u>6,823</u>	<u>10,767</u>
Net minimum lease payments	30,168	40,714
Less current portion	<u>(12,142)</u>	<u>(10,546)</u>
Capital leases payable, non-current portion	<u>\$ 18,026</u>	<u>\$ 30,168</u>

Scheduled future maximum lease payments due under the capital leases at December 31, 2013 are:

2014	\$ 16,118
2015	14,218
2016	<u>6,242</u>
Total lease payments	36,578
Less imputed interest	<u>(6,410)</u>
Net minimum lease payments	<u>\$ 30,168</u>

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

10. Note Payable

The note payable at December 31, 2013 and 2012 consists of:

	<u>2013</u>	<u>2012</u>
Note payable to a bank, requiring monthly installments of \$430 including interest at 6.49% through July 2015, collateralized by a van.	\$ 7,282	\$ 11,808
Less current portion	<u>(4,829)</u>	<u>(4,526)</u>
Note payable, non-current portion	<u>\$ 2,453</u>	<u>\$ 7,282</u>

Scheduled future maturities of the note payable at December 31, 2013 are:

2014	\$ 4,829
2015	<u>2,453</u>
	<u>\$ 7,282</u>

11. Deferred Grant Obligation

During the year ended December 31, 2011, Angel Charity for Tucson, Inc. (Angel Charity) made a \$350,000 pledge to the Club to support the renovation at the Roy Drachman Clubhouse. During June 2012, the Club executed a non-recourse, non interest-bearing promissory note in favor of Angel Charity in the amount of \$350,000. The note is secured by investments pledged as collateral (\$410,595 and \$413,944 at December 31, 2013 and 2012, respectively). The note provides that, on the condition the Club continues to utilize the facility to provide the Clubhouse services, Angel Charity will forgive the note at a rate of \$35,000 per year for a ten-year period beginning with the year ended December 31, 2013. The entire \$350,000 shall have been forgiven by Angel Charity, and the security interest in the Club's investments shall be canceled, terminated and released by the maturity date of December 31, 2023.

Future maturities of the deferred grant obligation at December 31, 2013 are:

2014	\$ 35,000
2015	35,000
2016	35,000
2017	35,000
2018	35,000
Thereafter	<u>140,000</u>
Total deferred grant obligation	315,000
Less current portion	<u>(35,000)</u>
Deferred grant obligation, non-current portion	<u>\$ 280,000</u>

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

12. Government Grants

Government grants for the years ended December 31, 2013 and 2012 consist of:

	<u>2013</u>	<u>2012</u>
Federal grants	\$ 107,347	\$ 162,315
Rico City grant	34,888	-
State of Arizona grants	2,000	-
Pima County grant	-	28,821
Total government grants	<u>\$ 144,235</u>	<u>\$ 191,136</u>

13. In-Kind Contributions

During the years ended December 31, 2013 and 2012, the Club recognized in-kind contributions, excluding those associated with special events, consisting of:

	<u>2013</u>	<u>2012</u>
Professional services	\$ 163,542	\$ 195,987
Supplies	137,909	50,629
Total in-kind contributions	<u>\$ 301,451</u>	<u>\$ 246,616</u>

14. Summary of Special Events

The Club's special event activities for the years ended December 31, 2013 and 2012 consist of:

	<u>2013</u>		
	<u>Revenue</u>	<u>Expenses</u>	<u>Net</u>
The Party, including in-kind donations of \$442,114	\$ 983,874	\$ 647,351	\$ 336,523
The Event, including in-kind donations of \$200,097	361,404	257,701	103,703
Ask Breakfast	173,651	12,265	161,386
	<u>\$ 1,518,929</u>	<u>\$ 917,317</u>	<u>\$ 601,612</u>

Special event expenses for the year ended December 31, 2013 include \$855,261 of direct donor benefit costs as reported on the statement of activities, and the remaining \$62,056 of other special event expenses are allocated on the statement of functional expenses as fundraising.

	<u>2012</u>		
	<u>Revenue</u>	<u>Expenses</u>	<u>Net</u>
The Party, including in-kind donations of \$402,804	\$ 956,471	\$ 652,161	\$ 304,310
The Event, including in-kind donations of \$141,992	326,988	218,418	108,570
Ask Breakfast, including in-kind donations of \$9,400	193,639	19,199	174,440
	<u>\$ 1,477,098</u>	<u>\$ 889,778</u>	<u>\$ 587,320</u>

Special event expenses for the year ended December 31, 2012 include \$795,894 of direct donor benefit costs as reported on the statement of activities, and the remaining \$93,884 of other special event expenses are allocated on the statement of functional expenses as fundraising..

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

15. Commitments

Operating Leases

The Club has entered into two leases for property and equipment with expiration dates in December 2014 and April 2017. During the years ended December 31, 2013 and 2012, rent expense under these agreements was \$9,672 and \$5,324, respectively. Future minimum lease payments under these agreements are:

2014	\$	9,286
2015		5,040
2016		5,040
2017		1,260
Total future minimum lease payments	\$	<u>20,626</u>

16. Related Party Transactions

During the years ended December 31, 2013 and 2012, the Club purchased services, supplies, repairs and auction items totaling \$4,892 and \$22,103, respectively, from companies whose owners are board members of the Club.

17. Retirement Plan

The Club adopted the Boys and Girls Clubs of Tucson Employee's Retirement Plan. The participants may make limited salary deferral contributions. The Club may make discretionary profit sharing contributions. Participants are immediately vested in their salary deferral contributions and become 100% vested in employer contributions after five years of participation in the plan. The Club did not contribute to the plan during the years ended December 31, 2013 and 2012.

18. Endowment Funds

The Club's endowments were established by individual donors as restricted funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Club has interpreted Arizona's version (Titled the "Management of Charitable Funds Act" (the Act)) of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Club classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Club in a manner consistent with the standard of prudence prescribed by the Act.

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

18. Endowment Funds, Continued

The Club has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment fund while seeking to maintain the original value of any contributions to the endowment assets. Endowment assets include those assets of donor-restricted funds that the Club must hold in perpetuity. Under this policy, as approved by the board of directors, the endowment assets are invested with a growth and income style of investing in a portfolio comprised of cash, fixed income securities and equities. Investment income is appropriated for expenditure in the year earned, and is, therefore, included in unrestricted net assets.

Endowment net asset composition by type of fund as of December 31, 2013 and 2012 consists of:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 718,000</u>

There were no changes in permanent endowment net assets during the years ended December 31, 2013 and 2012.

19. Statement of Cash Flow Disclosures

	<u>2013</u>	<u>2012</u>
Supplemental schedule of cash flow information:		
Cash paid during the year for interest	<u>\$ 6,207</u>	<u>\$ 8,137</u>
Supplemental disclosure of non-cash investing and financing information:		
Donated property and equipment	<u>\$ 45,016</u>	<u>\$ 8,350</u>
Dividends and interest reinvested	<u>\$ -</u>	<u>\$ 62,551</u>
Property and equipment purchased with line of credit advance	<u>\$ -</u>	<u>\$ 150,839</u>
Deferred grant obligation and grant receivable	<u>\$ -</u>	<u>\$ 125,839</u>
Scheduled release of deferred grant obligation	<u>\$ 35,000</u>	<u>\$ -</u>

20. Subsequent Events

The Club was unaware of any subsequent events as of May 30 2014, the date the financial statements were available to be issued.

See independent auditors' report.

