

BOYS AND GIRLS CLUBS OF TUCSON, INC.

Audited Financial Statements

For the years ended December 31, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014, 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

July 6, 2016

BOYS AND GIRLS CLUBS OF TUCSON, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014ASSETS

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 930,105	\$ 1,565,977
Contributions and accounts receivable	-	60,908
Grants receivable	22,211	1,265
Unconditional promises to give, current portion	162,314	163,498
Prepaid expenses and other current assets	30,608	61,053
Investments (\$368,711 and \$394,389 pledged as collateral on deferred grant obligation at December 31, 2015 and 2014, respectively) - current portion	<u>2,952,155</u>	<u>2,570,417</u>
Total current assets	4,097,393	4,423,118
Unconditional promises to give, non-current portion, net	615,412	761,824
Property and equipment, net	3,456,248	3,833,672
Investments, non-current portion	<u>312,332</u>	<u>318,108</u>
Total assets	<u>\$ 8,481,385</u>	<u>\$ 9,336,722</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 38,065	\$ 33,477
Accrued expenses	78,204	69,215
Deferred revenue	69,103	24,848
Deferred grant obligation, current portion	35,000	35,000
Capital leases payable, current	5,919	12,105
Note payable, current	-	2,453
Total current liabilities	<u>226,291</u>	<u>177,098</u>
Deferred grant obligation, non-current portion	210,000	245,000
Capital leases payable, non-current	<u>-</u>	<u>5,921</u>
Total liabilities	436,291	428,019
Net assets:		
Unrestricted	6,383,384	7,106,547
Temporarily restricted	807,760	948,206
Permanently restricted	<u>853,950</u>	<u>853,950</u>
Total net assets	<u>8,045,094</u>	<u>8,908,703</u>
Total liabilities and net assets	<u>\$ 8,481,385</u>	<u>\$ 9,336,722</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, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:				
Special events	\$ 1,031,017	\$ -	\$ -	\$ 1,031,017
Contributions	596,423	337,805	-	934,228
Other grants	294,726	-	-	294,726
Program service fees	109,373	-	-	109,373
In-kind contributions	108,796	-	-	108,796
Government grants	83,201	-	-	83,201
Development fundraising	82,910	-	-	82,910
United Way	75,425	-	-	75,425
Other revenues	18,360	-	-	18,360
Investment loss, net	(105,583)	-	-	(105,583)
Net assets released from restrictions:				
Satisfaction of donor restrictions	478,251	(478,251)	-	-
Total revenues and support	2,772,899	(140,446)	-	2,632,453
Expenses:				
Program services	2,153,725	-	-	2,153,725
Supporting services:				
General and administrative	403,281	-	-	403,281
Fund-raising	295,534	-	-	295,534
Special events - costs of direct donor benefits	643,522	-	-	643,522
Total expenses	3,496,062	-	-	3,496,062
Change in net assets	(723,163)	(140,446)	-	(863,609)
Net assets, beginning of year, as reclassified	7,106,547	948,206	853,950	8,908,703
Net assets, end of year	<u>\$ 6,383,384</u>	<u>\$ 807,760</u>	<u>\$ 853,950</u>	<u>\$ 8,045,094</u>
Nature of net assets:				
Unrestricted - undesignated	\$ 711,463	\$ -	\$ -	\$ 711,463
Unrestricted - board designated	2,097,881	-	-	2,097,881
Angel Charity collateral	368,711	-	-	368,711
Investment in property and equipment, net	3,205,329	-	-	3,205,329
Donor restricted - clubhouse/operating	-	734,546	-	734,546
Donor restricted - education	-	73,214	-	73,214
Donor restricted - endowments	-	-	853,950	853,950
	<u>\$ 6,383,384</u>	<u>\$ 807,760</u>	<u>\$ 853,950</u>	<u>\$ 8,045,094</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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:				
Contributions	\$ 1,851,941	\$ 337,528	\$ 135,950	\$ 2,325,419
Special events	1,346,388	-	-	1,346,388
Other grants	355,688	-	-	355,688
In-kind contributions	341,367	-	-	341,367
Development fundraising	147,800	-	-	147,800
Investment income, net	107,237	-	-	107,237
Program service fees	101,827	-	-	101,827
Government grants	81,004	-	-	81,004
United Way	71,358	-	-	71,358
Other revenues	20,229	-	-	20,229
Net assets released from restrictions:				
Satisfaction of donor restrictions	808,066	(808,066)	-	-
Total revenues and support	5,232,905	(470,538)	135,950	4,898,317
Expenses:				
Program services	2,573,621	-	-	2,573,621
Supporting services:				
General and administrative	349,480	-	-	349,480
Fund-raising	464,304	-	-	464,304
Special events- costs of direct donor benefits	780,205	-	-	780,205
Total expenses	4,167,610	-	-	4,167,610
Change in net assets	1,065,295	(470,538)	135,950	730,707
Net assets, beginning of year, as reclassified	6,041,252	1,418,744	718,000	8,177,996
Net assets, end of year, as reclassified	<u>\$ 7,106,547</u>	<u>\$ 948,206</u>	<u>\$ 853,950</u>	<u>\$ 8,908,703</u>
Nature of net assets:				
Unrestricted - undesignated	\$ 994,753	\$ -	\$ -	\$ 994,753
Unrestricted - board designated	2,184,212	-	-	2,184,212
Angel Charity collateral	394,389	-	-	394,389
Investment in property and equipment, net	3,533,193	-	-	3,533,193
Donor restricted - clubhouse/operating	-	883,970	-	883,970
Donor restricted - education	-	64,236	-	64,236
Donor restricted - endowments	-	-	853,950	853,950
	<u>\$ 7,106,547</u>	<u>\$ 948,206</u>	<u>\$ 853,950</u>	<u>\$ 8,908,703</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, 2015

	Program Services	General and Administrative	Fund- Raising	Total
Payroll and related expenses	\$ 1,150,363	\$ 227,437	\$ 166,050	\$ 1,543,850
Depreciation	360,291	58,886	1,994	421,171
Supplies	288,217	21,848	85,252	395,317
Professional fees	61,743	43,987	21,886	127,616
Repairs and maintenance	80,466	11,747	355	92,568
Insurance	61,318	6,234	710	68,262
Utilities	63,517	793	-	64,310
Conferences and meetings	11,787	14,664	2,866	29,317
Telephone	20,631	7,100	925	28,656
Transportation	19,541	2,399	3,419	25,359
National and membership dues	10,950	3,351	2,747	17,048
Printing and publication	6,542	2,888	6,312	15,742
Scholarships, awards and grants	10,340	-	-	10,340
Postage and shipping	3,115	1,331	1,938	6,384
Interest expense	4,215	-	256	4,471
Miscellaneous	689	616	824	2,129
Total functional expenses	<u>\$ 2,153,725</u>	<u>\$ 403,281</u>	<u>\$ 295,534</u>	<u>\$ 2,852,540</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, 2014

	Program Services	General and Administrative	Fund- Raising	Total
Payroll and related expenses	\$ 1,466,409	\$ 152,809	\$ 221,749	\$ 1,840,967
Depreciation	344,559	81,580	1,877	428,016
Supplies	337,879	27,287	52,260	417,426
Professional fees	92,081	41,217	168,237	301,535
Repairs and maintenance	95,141	12,682	-	107,823
Insurance	64,820	6,716	2,896	74,432
Utilities	72,055	923	-	72,978
Transportation	26,090	1,075	2,661	29,826
Telephone	20,253	8,462	624	29,339
Conferences and meetings	10,779	7,230	1,998	20,007
Scholarships, awards and grants	17,727	-	-	17,727
National and membership dues	10,902	4,387	2,122	17,411
Printing and publication	7,411	719	4,475	12,605
Postage and shipping	3,473	1,376	4,810	9,659
Interest expense	3,313	499	497	4,309
Miscellaneous	729	2,518	98	3,345
Total functional expenses	<u>\$ 2,573,621</u>	<u>\$ 349,480</u>	<u>\$ 464,304</u>	<u>\$ 3,387,405</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (863,609)	\$ 730,707
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	421,171	428,016
Donated property and equipment	-	(2,000)
Change in allowance for net present value, unconditional promises to give	(27,407)	(33,940)
Change in allowance for uncollectible promises to give	(3,547)	(1,951)
Net realized and unrealized loss (gain) on investments	163,025	(73,245)
Scheduled release of deferred grant obligation	(35,000)	(35,000)
Changes in operating assets and liabilities:		
Contributions and accounts receivable	60,908	(4,921)
Grants receivable	(20,946)	18,022
Unconditional promises to give	178,550	177,800
Prepaid expenses and other current assets	30,445	(6,792)
Accounts payable	4,588	(26,451)
Accrued expenses	8,989	(5,222)
Deferred revenue	44,255	(5,519)
Total adjustments	<u>825,031</u>	<u>428,797</u>
Net cash (used in) provided by operating activities	(38,578)	1,159,504
Cash flows from investing activities:		
Proceeds from sale of investments	1,116,501	1,043,006
Purchases of investments	(1,655,488)	(1,894,811)
Purchases of property and equipment	<u>(43,747)</u>	<u>(95,256)</u>
Net cash used in investing activities	(582,734)	(947,061)
Cash flows from financing activities:		
Principal payments made on capital leases payable	(12,107)	(12,142)
Principal payments made on note payable	<u>(2,453)</u>	<u>(4,829)</u>
Net cash used in financing activities	<u>(14,560)</u>	<u>(16,971)</u>
Change in cash and cash equivalents	(635,872)	195,472
Cash and cash equivalents, beginning of year	<u>1,565,977</u>	<u>1,370,505</u>
Cash and cash equivalents, end of year	<u>\$ 930,105</u>	<u>\$ 1,565,977</u>
Supplemental schedule of cash flow information:		
Cash paid during the year for interest	<u>\$ 4,471</u>	<u>\$ 4,309</u>
Supplemental disclosure of non-cash investing and financing information:		
Donated property and equipment	<u>\$ -</u>	<u>\$ 2,000</u>
Scheduled release of deferred grant obligation	<u>\$ 35,000</u>	<u>\$ 35,000</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, 2015 and 2014

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. 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.

Contributions and Accounts Receivable

Contributions and accounts receivable are comprised primarily of amounts due for contributions and special event related payments. Management considers all contributions and grants receivable 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, 2015 and 2014.

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.

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

2. Summary of Significant Accounting Policies. Continued

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.

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. There were no income taxes paid during the years ended December 31, 2015 and 2014.

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, 2015, 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.

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

2. Summary of Significant Accounting Policies, Continued

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.

3. Concentration Risk

The Club maintains cash and investment accounts with various financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures cash accounts at banks up to \$250,000 per institution. 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, 2015 and 2014, the Club had cash and investments in the amount of \$3,383,383 and \$3,703,332, 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. 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, 2015 and 2014, the balances due on pledges for this campaign are scheduled to be paid in future years as follows:

	2015	2014
2015	\$ -	\$ 178,550
2016	175,000	175,000
2017	175,000	175,000
2018	175,000	175,000
2019	175,000	175,000
Thereafter	150,000	150,000
Total unconditional promises to give	850,000	1,028,550
Less interest component at 3.25%	(67,173)	(94,579)
Less allowance for uncollectible promises receivable	(5,101)	(8,649)
Unconditional promises to give, net	777,726	925,322
Less current portion	(162,314)	(163,498)
Non-current portion	\$ 615,412	\$ 761,824

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

5. Investments

Investments are stated at fair value and consist of the following at December 31,:

	<u>2015</u>	<u>2014</u>
Stock	\$ 1,732,312	\$ 1,775,569
Corporate bonds	1,251,659	713,748
Mutual funds	<u>280,516</u>	<u>399,208</u>
Total investments	3,264,487	2,888,525
Less current portion	<u>(2,952,155)</u>	<u>(2,570,417)</u>
Investments, non-current portion	<u>\$ 312,332</u>	<u>\$ 318,108</u>

As discussed in Note 10, 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, 2015 and 2014 include \$368,711 and \$394,389, respectively, pledged as collateral securing the note.

Investment income consists of the following for the years ended December 31,:

	<u>2015</u>	<u>2014</u>
Net realized and unrealized (loss) gain	\$ (163,025)	\$ 73,245
Interest and dividend income	83,497	53,095
Investment expense	<u>(26,055)</u>	<u>(19,103)</u>
Investment (loss) income, net	<u>\$ (105,583)</u>	<u>\$ 107,237</u>

6. 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.

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

6. Fair Value Measurements, Continued

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

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, 2015 and 2014.

- *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 are:

Assets at Fair Value as of December 31, 2015				
	Level 1	Level 2	Level 3	Total
Stock	\$ 1,732,312	\$ -	\$ -	\$ 1,732,312
Corporate bonds	1,251,659	-	-	1,251,659
Mutual funds:				
Large cap growth	38,298	-	-	38,298
Mid cap diversified	30,351	-	-	30,351
Small cap diversified	211,867	-	-	211,867
Unconditional promises to give, net present value	-	-	777,726	777,726
Total assets	\$ 3,264,487	\$ -	\$ 777,726	\$ 4,042,213
Assets at Fair Value as of December 31, 2014				
	Level 1	Level 2	Level 3	Total
Stock	\$ 1,775,569	\$ -	\$ -	\$ 1,775,569
Corporate bonds	713,748	-	-	713,748
Mutual funds:				
Large cap growth	325,728	-	-	325,728
Small cap diversified	73,480	-	-	73,480
Unconditional promises to give, net present value	-	-	925,322	925,322
Total assets	\$ 2,888,525	\$ -	\$ 925,322	\$ 3,813,847

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

6. 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, 2015 and 2014:

<u>Unconditional Promises to Give, Net Present Value</u>	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 925,322	\$ 1,067,231
New unconditional promises to give	-	-
Unconditional promises to give collected	(178,550)	(177,800)
Change in allowance for unconditional promises to give	3,547	1,951
Change in net present value	<u>27,407</u>	<u>33,940</u>
Balance, end of year	<u>\$ 777,726</u>	<u>\$ 925,322</u>

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

7. Property and Equipment

Property and equipment consists of the following at December 31,:

	<u>2015</u>	<u>2014</u>
Buildings and building improvements	\$ 7,930,820	\$ 7,902,585
Equipment	1,294,680	1,298,393
Statues	11,408	11,408
Vehicles	<u>214,206</u>	<u>214,206</u>
Total property and equipment	9,451,114	9,426,592
Less accumulated depreciation	<u>(5,994,866)</u>	<u>(5,592,920)</u>
Property and equipment, net	<u>\$ 3,456,248</u>	<u>\$ 3,833,672</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 Roy Drachman, Holmes Tuttle, and Steve Daru Clubhouses be, and remain, in the name of the Club through September 9, 2025 with each agreement containing an option to renew, by mutual consent, for up to two additional 10-year periods.

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, 2015 and 2014

8. 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, 2015 and 2014, respectively.

Capital leases payable consist of the following as of December 31,:

	<u>2015</u>	<u>2014</u>
Mitel Phone Lease, requiring monthly installments of \$724 including interest through May 2016, collateralized by telephone equipment.	\$ 4,101	\$ 11,171
Lanier MF Lease, requiring monthly installments of \$239 including interest through August 2016, collateralized by a copier.	1,818	4,255
IKON Leasing Company, requiring monthly installments of \$380 including interest through March 2015, collateralized by a copier.	-	2,600
Net minimum lease payments	5,919	18,026
Less current portion	(5,919)	(12,105)
Capital leases payable, non-current portion	<u>\$ -</u>	<u>\$ 5,921</u>

Scheduled future maximum lease payments due under the capital leases at December 31, 2015 are:

2016	<u>\$ 6,242</u>
Total lease payments	6,242
Less imputed interest	(323)
Net minimum lease payments	<u>\$ 5,919</u>

9. Note Payable

The note payable in the amount of \$2,453 at December 31, 2014 consisted of a note payable to a bank requiring monthly installments of \$430, including interest at 6.49%, through July 2015. The note was collateralized by a van and was repaid in its entirety during July 2015.

10. 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 (\$368,711 and \$394,389 at December 31, 2015 and 2014, 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.

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

10. Deferred Grant Obligation, Continued

Future maturities of the deferred grant obligation at December 31, 2015 are:

2016	\$ 35,000
2017	35,000
2018	35,000
2019	35,000
2020	35,000
Thereafter	<u>70,000</u>
Total deferred grant obligation	245,000
Less current portion	<u>(35,000)</u>
Deferred grant obligation, non-current portion	<u>\$ 210,000</u>

11. Government Grants

Government grants consist of the following for the years ended December 31,:

	<u>2015</u>	<u>2014</u>
Federal grants	\$ 81,341	\$ 78,804
State of Arizona grants	<u>1,860</u>	<u>2,200</u>
Total government grants	<u>\$ 83,201</u>	<u>\$ 81,004</u>

12. In-Kind Contributions

During the years ended December 31, 2015 and 2014, the Club recognized in-kind contributions, excluding those associated with special events, consisting of:

	<u>2015</u>	<u>2014</u>
Professional services	\$ 89,393	\$ 192,408
Supplies	<u>19,403</u>	<u>148,959</u>
Total in-kind contributions	<u>\$ 108,796</u>	<u>\$ 341,367</u>

13. Summary of Special Events

The Club's special event activities for the years ended December 31, 2015 and 2014 consist of:

	<u>2015</u>		
	<u>Revenue</u>	<u>Expenses</u>	<u>Net</u>
The Party, including in-kind donations of \$288,555	\$ 567,495	\$ 461,720	\$ 105,775
The Event, including in-kind donations of \$139,402	300,057	215,541	84,516
Ask Breakfast	<u>163,465</u>	<u>14,822</u>	<u>148,643</u>
	<u>\$ 1,031,017</u>	<u>\$ 692,083</u>	<u>\$ 338,934</u>

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

13. Summary of Special Events, Continued

Special event expenses for the year ended December 31, 2015 include \$643,522 of direct donor benefit costs as reported on the statement of activities, and the remaining \$48,531 of other special event expenses are allocated on the statement of functional expenses as fundraising.

	2014		
	Revenue	Expenses	Net
The Party, including in-kind donations of \$397,163	\$ 849,555	\$ 604,393	\$ 245,162
The Event, including in-kind donations of \$156,790	311,495	230,522	80,973
Ask Breakfast, including in-kind donations of \$9,075	185,338	21,798	163,540
	<u>\$ 1,346,388</u>	<u>\$ 856,713</u>	<u>\$ 489,675</u>

Special event expenses for the year ended December 31, 2014 include \$780,205 of direct donor benefit costs as reported on the statement of activities, and the remaining \$76,508 of other special event expenses are allocated on the statement of functional expenses as fundraising.

14. Commitments

Operating Leases

The Club has entered into two leases for property and equipment with expiration dates in May 2019 and April 2017. During each of the years ended December 31, 2015 and 2014, rent expense under these agreements was \$6,486. Future minimum lease payments under these agreements are:

2016	\$ 6,486
2017	2,706
2018	1,446
2019	603
Total future minimum lease payments	<u>\$ 11,241</u>

15. Related Party Transactions

During the years ended December 31, 2015 and 2014, the Club purchased services, supplies, repairs and auction items totaling \$-0- and \$3,692, respectively, from companies whose owners are board members of the Club.

16. 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, 2015 and 2014.

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

17. 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.

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, 2015 consists of:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted membership endowment funds	\$ -	\$ -	\$ 698,000
Donor-restricted scholarship endowment funds	-	-	155,950
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 853,950</u>

Endowment net asset composition by type of fund as of December 31, 2014 consists of:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted membership endowment funds	\$ -	\$ -	\$ 698,000
Donor-restricted scholarship endowment funds	-	-	155,950
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 853,950</u>

During the year ended December 31, 2014, the Club received donor-restricted scholarship endowment fund contributions in the amount of \$135,950. There were no other changes in permanent endowment net assets during the years ended December 31, 2015 and 2014.

See independent auditors' report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

18. Net Asset Reclassification

Net assets as of December 31, 2014 and 2013 have been reclassified between unrestricted and temporarily restricted net assets to properly reflect the change in the allowance for the net present value related to unconditional promises to give as released from restrictions. As a result, temporarily restricted net assets in the amount of \$94,579 and \$128,519 as of December 31, 2014 and 2013, respectively, decreased with a corresponding increase in each year to unrestricted net assets.

19. Subsequent Events

The Club was unaware of any subsequent events as of July 6, 2016, the date the financial statements were available to be issued.

See independent auditors' report.

