BOYS AND GIRLS CLUBS OF TUCSON, INC.

Audited Financial Statements

For the years ended December 31, 2012 and 2011

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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, 2012 and 2011, 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 audit 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, 2012 and 2011, 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

June 18, 2013

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

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BOYS AND GIRLS CLUBS OF TUCSON, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

ASSETS

	2012	2011
Current assets:		
Cash and cash equivalents	$ 1,384,237	$ 1,588,959
Accounts receivable	52,505	16,710
Grants receivable	12,369	236,262
Unconditional promises to give, current portion	119,040	156,311
Prepaid expenses and other current assets	47,074	45,490
Investments ($413,944 pledged as collateral on deferred grant obligation at December 31, 2012) - current portion	1,526,051	952,893
Total current assets	3,141,276	2,996,625
Unconditional promises to give, non-current portion	665,219	754,880
Property and equipment, net	4,500,876	4,592,792
Investments, non-current portion	353,063	775,887
Total assets	$ 8,660,434	$ 9,120,184

LIABILITIES AND NET ASSETS

	2012	2011
Current liabilities:		
Accounts payable	$ 39,524	$ 32,156
Accrued expenses	59,208	89,874
Deferred revenue	122,226	183,238
Deferred grant obligation, current portion	35,000	-
Line of credit	-	199,161
Capital leases payable, current	10,546	9,192
Notes payable, current	4,526	11,497
Total current liabilities	271,030	525,118
Deferred grant obligation, non-current portion	315,000	224,161
Capital leases payable, non-current	30,168	40,713
Notes payable, non-current	7,282	12,447
Total liabilities	623,480	802,439
Net assets:		
Unrestricted	6,055,197	5,980,236
Temporarily restricted	1,263,757	1,619,509
Permanently restricted	718,000	718,000
Total net assets	8,036,954	8,317,745
Total liabilities and net assets	$ 8,660,434	$ 9,120,184

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
	3,120,165	-	-	3,120,165
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	$ 6,055,197	$ 1,263,757	$ 718,000	$ 8,036,954
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
	$ 6,055,197	$ 1,263,757	$ 718,000	$ 8,036,954

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, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:				
Special events	$ 1,548,287	$ -	$ -	$ 1,548,287
Contributions	437,717	365,812	-	803,529
In-kind contributions	278,148	-	-	278,148
Other grants	222,931	-	-	222,931
Government grants	195,879	-	-	195,879
Development fundraising	193,288	-	-	193,288
Program service fees	79,810	-	-	79,810
United Way	54,235	-	-	54,235
Other revenues	25,359	-	-	25,359
Investment loss, net	(36,218)	-	-	(36,218)
Net assets released from restrictions:				
Satisfaction of donor restrictions	378,320	(378,320)	-	-
Total revenues and support	3,377,756	(12,508)	-	3,365,248
Expenses:				
Program services	2,078,419	-	-	2,078,419
Supporting services:				
General and administrative	321,145	-	-	321,145
Fund-raising	467,989	-	-	467,989
	2,867,553	-	-	2,867,553
Special events - costs of direct donor benefits	811,340	-	-	811,340
Total expenses	3,678,893	-	-	3,678,893
Change in net assets	(301,137)	(12,508)	-	(313,645)
Net assets, beginning of year, reclassified	6,281,373	1,632,017	718,000	8,631,390
Net assets, end of year	$ 5,980,236	$ 1,619,509	$ 718,000	$ 8,317,745
Nature of net assets:				
Unrestricted - undesignated	$ 639,437	$ -	$ -	$ 639,437
Unrestricted - board designated	1,046,017	-	-	1,046,017
Investment in property and equipment, net	4,294,782	-	-	4,294,782
Donor restricted - clubhouse/operating	-	1,589,545	-	1,589,545
Donor restricted - education	-	29,964	-	29,964
Donor restricted - endowments	-	-	718,000	718,000
	$ 5,980,236	$ 1,619,509	$ 718,000	$ 8,317,745

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	$ 2,325,264	$ 334,548	$ 460,353	$ 3,120,165

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, 2011

	Program Services	General and Administrative	Fund-Raising	Total
Payroll and related expenses	$ 1,177,795	$ 168,360	$ 236,551	$ 1,582,706
Depreciation	317,729	86,139	3,629	407,497
Professional fees	129,092	8,609	161,497	299,198
Supplies	202,894	15,105	33,509	251,508
Utilities	64,718	850	-	65,568
Insurance	54,129	6,599	2,954	63,682
Repairs and maintenance	37,623	15,466	1,452	54,541
Transportation	26,630	1,128	475	28,233
Telephone	19,153	7,769	829	27,751
Conferences and meetings	15,356	1,243	8,513	25,112
National and membership dues	9,228	1,968	1,538	12,734
Scholarships, awards and grants	9,686	1,239	-	10,925
Printing and publication	5,777	1,635	2,993	10,405
Bad debt expense	-	-	10,000	10,000
Interest expense	5,353	549	549	6,451
Postage and shipping	2,610	1,231	3,462	7,303
Miscellaneous	646	3,255	38	3,939
Total functional expenses	$ 2,078,419	$ 321,145	$ 467,989	$ 2,867,553

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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ (280,791)	$ (313,645)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	442,317	407,497
Gain on sale of property and equipment	(10,500)	-
Donated property and equipment	(8,350)	(66,310)
Change in allowance for net present value, unconditional promises to give	(28,228)	(33,161)
Change in allowance for uncollectible promises to give	-	9,500
Net realized and unrealized (gain) loss on investments	(138,283)	69,552
Dividends and interest reinvested	(62,551)	(37,387)
Changes in operating assets and liabilities:		
Accounts receivable	(35,795)	6,951
Grants receivable	349,732	(10,430)
Unconditional promises to give	155,160	171,377
Prepaid expenses and other current assets	(1,584)	725
Accounts payable	7,368	(20,643)
Accrued expenses	(30,666)	45,234
Deferred revenue	(61,012)	65,722
Total adjustments	577,608	608,627
Net cash provided by operating activities	296,817	294,982
Cash flows from investing activities:		
Proceeds from sale of investments	852,830	1,628,046
Purchases of investments	(802,330)	(1,522,133)
Principal payments received on note receivable	-	6,942
Proceeds from sale of property and equipment	10,500	-
Purchases of property and equipment	(191,212)	(71,997)
Net cash (used in) provided by investing activities	(130,212)	40,858
Cash flows from financing activities:		
Repayments made on line of credit	(350,000)	-
Principal payments made on capital leases payable	(9,191)	(5,468)
Principal payments made on notes payable	(12,136)	(10,725)
Net cash used in financing activities	(371,327)	(16,193)
Change in cash and cash equivalents	(204,722)	319,647
Cash and cash equivalents, beginning of year	1,588,959	1,269,312
Cash and cash equivalents, end of year	$ 1,384,237	$ 1,588,959

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

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 7,739 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.

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 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 has determined that the Club is not a private foundation within the meaning of section 509(a) of the Internal Revenue Code.

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, 2012, there were no uncertain tax positions that are potentially material. The Club's federal Form 990, Return of Organization Exempt from Income Tax for 2009, 2010, and 2011 are subject to examination by the IRS, generally for three years after they were 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.

Reclassification

Certain items from the 2011 financial statements have been reclassified to conform to the 2012 financial statement presentation.

3. Concentration Risk

The Federal Deposit Insurance Corporation (FDIC) insures interest-bearing cash accounts at banks up to $250,000 per institution. Non interest-bearing accounts are fully-insured. 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, 2012 and 2011, the Club had cash and investments in the amount of $2,435,441 and $2,560,529, 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, 2012 and 2011.

5. Unconditional Promises to Give

Unconditional promises to give at December 31, 2012 and 2011 consist of:

Founders Circle Campaign – During the year ended December 31, 2005, a campaign was launched to raise money for the operating expenses of a new clubhouse. At December 31, 2012 and 2011, the balances due for this campaign were $-0- and $33,000, respectively.

Ask Campaign – During the year ended December 31, 2003, the Club launched an ongoing campaign to help raise funds for the Club. At December 31, 2012 and 2011, the balances due on pledges for this campaign are scheduled to be paid in future years as follows:

	2012	2011
2012	$ -	$ 129,225
2013	132,141	129,876
2014	129,825	127,325
2015	128,325	126,075
2016	125,050	125,000
Thereafter	375,000	375,000
Total unconditional promises to give	890,341	1,012,501
Less interest component at 3.25%	(89,582)	(117,810)
Less allowance for uncollectible promises receivable	(16,500)	(16,500)
Unconditional promises to give, net	784,259	878,191
Less current portion	(119,040)	(123,311)
Non-current portion	$ 665,219	$ 754,880

6. Investments

Investments at December 31, 2012 and 2011 are stated at fair value and consist of:

	2012	2011
Stock	$ 1,057,887	$ 755,865
Corporate bonds	695,503	775,887
Mutual funds	125,724	197,028
Total investments	1,879,114	1,728,780
Less current portion	(1,526,051)	(952,893)
Investments, non-current portion	$ 353,063	$ 775,887

As discussed in Note 12, 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, 2012 include $413,944 pledged as collateral securing the note.

Investment income (loss) consists of:

	2012	2011
Interest and dividend income	$ 108,880	$ 49,789
Net realized and unrealized gain (loss)	138,283	(69,552)
Investment expense	(15,875)	(16,455)
Investment income (loss), net	$ 231,288	$ (36,218)

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.

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, 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, 2012 and 2011 are:

	Assets at Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Stock	$ 1,057,887	$ -	$ -	$ 1,057,887
Corporate bonds	695,503	-	-	695,503
Mutual funds				
Small cap diversified	43,861	-	-	43,861
Large cap growth	81,863	-	-	81,863
Unconditional promises to give, net present value	-	-	784,259	784,259
Total assets	$ 1,879,114	$ -	$ 784,259	$ 2,663,373

	Assets at Fair Value as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Stock	$ 755,865	$ -	$ -	$ 755,865
Corporate bonds	775,887	-	-	775,887
Mutual funds				
Small cap diversified	29,437	-	-	29,437
Large cap growth	167,591	-	-	167,591
Unconditional promises to give, net present value	-	-	911,191	911,191
Total assets	$ 1,728,780	$ -	$ 911,191	$ 2,639,971

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, 2012 and 2011:

Unconditional Promises to Give, Net Present Value	2012	2011
Balance, beginning of year	$ 911,191	$ 1,058,905
New unconditional promises to give	3,000	4,100
Unconditional promises to give collected	(158,160)	(175,475)
Unconditional promises to give deemed uncollectible	-	(9,500)
Change in net present value	28,228	33,161
Balance, end of year	$ 784,259	$ 911,191

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, 2012 and 2011 consists of:

	2012	2011
Buildings and building improvements	$ 7,831,444	$ 7,401,357
Equipment	1,166,209	1,093,178
Statues	11,408	11,408
Vehicles	214,206	228,226
Construction in process	-	224,536
Total property and equipment	9,223,267	8,958,705
Less accumulated depreciation	(4,722,391)	(4,365,913)
Property and equipment, net	$ 4,500,876	$ 4,592,792

The construction in process included in property and equipment at December 31, 2011 was completed and placed in service during January 2012. The construction related to the renovations of the Roy Drachman Clubhouse with a total cost of $350,000.

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 on September 28, 2012 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.

9. Line of Credit

On September 21, 2011, the Club entered into a bridge line of credit agreement with a bank in connection with the renovation of the Roy Drachman Clubhouse. The maximum amount of the loan is $350,000 and bears interest at 3.25%. The line matured on June 5, 2012, and was paid off on June 20, 2012.

10. 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 $20,233 and $8,864 at December 31, 2012 and 2011, respectively.

	2012	2011
Mitel Phone Lease, requiring monthly installments of $724 including interest through May 2016, collateralized by telephone equipment.	$ 21,702	$ 25,585
Lanier MF Lease, requiring monthly installments of $239 including interest through August 2016, collateralized by a copier.	8,245	9,870
IKON Leasing Company, requiring monthly installments of $380 including interest through March 2015, collateralized by a copier.	10,767	14,450
Net minimum lease payments	40,714	49,905
Less current portion	(10,546)	(9,192)
Capital leases payable, non-current portion	$ 30,168	$ 40,713

Scheduled future maximum lease payments due under the capital leases at December 31, 2012 are:

2013	$ 16,118
2014	16,118
2015	14,218
2016	6,242
Total lease payments	52,696
Less imputed interest	(11,982)
Net minimum lease payments	$ 40,714

11. Notes Payable

The notes payable at December 31, 2012 and 2011 consist of:

	2012	2011
Note payable to a bank, requiring monthly installments of $430 including interest at 6.49% through July 2015, collateralized by a van.	$ 11,808	$ 16,051
Note payable to a bank, requiring monthly installments of $635 including interest at 7.99%, collateralized by a van.	-	7,893
Total notes payable	11,808	23,944
Less current portion	(4,526)	(11,497)
Note payable, non-current portion	$ 7,282	$ 12,447

Scheduled future maturities of the notes payable at December 31, 2012 are:

2013	$ 4,526
2014	4,829
2015	2,453
	$ 11,808

12. 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 of 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 ($413,944 at December 31, 2012). 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. At December 31, 2011 grants receivable and deferred grant obligation in the amounts of $224,161, respectively, reflect monies expended in connection with the Roy Drachman Clubhouse renovation discussed in Note 8.

Future maturities of the deferred grant obligation are:

2013	$ 35,000
2014	35,000
2015	35,000
2016	35,000
2017	35,000
Thereafter	175,000
Total deferred grant obligation	350,000
Less current portion	(35,000)
Deferred grant obligation, non-current portion	$ 315,000

13. Government Grants

Government grants for the years ended December 31, 2012 and 2011 consist of:

	2012	2011
Federal grants	$ 162,315	$ 123,700
Pima county grant	28,821	52,179
State of Arizona grants	-	20,000
Total government grants	$ 191,136	$ 195,879

14. In-Kind Contributions

During the years ended December 31, 2012 and 2011, the Club recognized in-kind contributions, excluding those associated with special events, consisting of:

	2012	2011
Supplies	$ 50,629	$ 143,283
Professional services	195,987	134,865
Total in-kind contributions	$ 246,616	$ 278,148

15. Summary of Special Events

The Club's special event activities for the years ended December 31, 2012 and 2011 consist of:

	2012		
	Revenue	Expenses	Net
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
	$ 1,477,098	$ 889,778	$ 587,320

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.

	2011		
	Revenue	Expenses	Net
The Party, including in-kind donations of $411,231	$ 1,091,081	$ 744,965	$ 346,116
The Event, including in-kind donations of $71,916	233,471	149,873	83,598
Ask Breakfast, including in-kind donations of $1,880	223,735	15,439	208,296
	$ 1,548,287	$ 910,277	$ 638,010

Special event expenses for year ended December 31, 2011 include $811,340 of direct donor benefit costs as reported on the statement of activities, and the remaining $98,937 of other special event expenses are allocated on the statement of functional expenses as fundraising.

16. 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, 2012 and 2011, rent expense under these agreements was $5,324 and $1,544, respectively. Future minimum lease payments under these agreements are:

2013	$	6,584
2014		6,198
2015		5,040
2016		5,040
2017		1,260
Total future minimum lease payments	$	24,122

Employment

The Club has entered into a contract with its former Executive Director to provide assistance to the Club's Executive Director, acting Executive Director and/or Interim Executive Director for the period from January 1, 2009 through December 31, 2011. The agreement provides for annual salary of $50,000, insurance and pension benefits through December 31, 2011. During the years ended December 31, 2012 and 2011, insurance premiums and pension benefits paid under this agreement totaled $-0- and $8,421, respectively.

17. Related Party Transactions

During December 31, 2011, the Club paid insurance and pension benefits to its Executive Director, Emeritus. See Note 16.

During the years ended December 31, 2012 and 2011, the Club purchased services, supplies, repairs and auction items totaling $22,103 and $19,618, respectively, from companies whose owners are board members of the Club.

18. 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, 2012 and 2011.

19. 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.

19. Endowment Funds, Continued

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, 2012 and 2011 consists of:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment funds	$ -	$ -	$ 718,000

There were no changes in permanent endowment net assets during the years ended December 31, 2012 and 2011.

20. Statement of Cash Flow Disclosures

	2012	2011
Supplemental schedule of cash flow information:		
Cash paid during the year for interest	$ 8,137	$ 6,451
Supplemental disclosure of non-cash investing and financing information:		
Donated property and equipment	$ 8,350	$ 66,310
Dividends and interest reinvested	$ 62,551	$ 37,387
Property and equipment purchased with line of credit advance	$ 150,839	$ 199,161
Property and equipment purchased with capital lease	$ -	$ 37,619
Deferred grant obligation and grant receivable	$ 125,839	$ 199,161

21. Subsequent Events

The Club was unaware of any subsequent events as of June 18, 2013, the date the financial statements were available to be issued.