

BOYS AND GIRLS CLUBS OF TUCSON, INC.

Audited Financial Statements

For the years ended December 31, 2017 and 2016

BOYS AND GIRLS CLUBS OF TUCSON, INC.

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LUDWIG KLEWER & CO. PLLC

Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S 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, 2017 and 2016, 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 from 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, 2017 and 2016, 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 4, 2018

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, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 749,719	\$ 977,933
Bequest receivable	11,696	192,500
Grants and contributions receivable, net	129,494	12,508
Unconditional promises to give, current portion	155,750	119,237
Prepaid expenses and other current assets	37,242	38,248
Investments (\$228,355 and \$378,238 pledged as collateral on deferred grant obligation at December 31, 2017 and 2016, respectively) - current portion	<u>3,331,221</u>	<u>3,025,247</u>
Total current assets	4,415,122	4,365,673
Unconditional promises to give, non-current portion, net	136,540	233,219
Property and equipment, net	2,947,183	3,188,121
Investments, non-current portion	<u>53,380</u>	<u>81,615</u>
Total assets	<u>\$ 7,552,225</u>	<u>\$ 7,868,628</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 42,567	\$ 40,303
Accrued expenses	94,229	76,318
Deferred revenue	96,969	59,260
Deferred grant obligation, current portion	<u>35,000</u>	<u>35,000</u>
Total current liabilities	268,765	210,881
Deferred grant obligation, non-current portion	<u>140,000</u>	<u>175,000</u>
Total liabilities	408,765	385,881
Net assets:		
Unrestricted	5,660,828	6,026,486
Temporarily restricted	597,682	602,311
Permanently restricted	<u>884,950</u>	<u>853,950</u>
Total net assets	<u>7,143,460</u>	<u>7,482,747</u>
Total liabilities and net assets	<u>\$ 7,552,225</u>	<u>\$ 7,868,628</u>

See independent auditor's report and
accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF TUCSON, INC:

STATEMENT OF ACTIVITIES
For the year ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:				
Contributions	\$ 651,689	\$ 521,935	\$ 31,000	\$ 1,204,624
Special events	885,631	-	-	885,631
Other grants	389,551	-	-	389,551
Investment income, net	365,158	-	-	365,158
In-kind contributions	303,186	-	-	303,186
Government grants	122,550	-	-	122,550
Development fundraising	117,020	-	-	117,020
Program service fees	54,628	-	-	54,628
United Way	50,910	-	-	50,910
Other revenues	28,965	-	-	28,965
Gain on sale of asset	8,895	-	-	8,895
Net assets released from restrictions:				
Satisfaction of donor restrictions	526,564	(526,564)	-	-
Total revenues and support	3,504,747	(4,629)	31,000	3,531,118
Expenses:				
Program services	2,624,435	-	-	2,624,435
Supporting services:				
General and administrative	376,981	-	-	376,981
Fund-raising	425,855	-	-	425,855
Special events - costs of direct donor benefits	443,134	-	-	443,134
Total expenses	3,870,405	-	-	3,870,405
Change in net assets	(365,658)	(4,629)	31,000	(339,287)
Net assets, beginning of year	6,026,486	602,311	853,950	7,482,747
Net assets, end of year	<u>\$ 5,660,828</u>	<u>\$ 597,682</u>	<u>\$ 884,950</u>	<u>\$ 7,143,460</u>
Nature of net assets:				
Unrestricted - undesignated	\$ 336,608	\$ -	\$ -	\$ 336,608
Unrestricted - board designated	2,323,682	-	-	2,323,682
Angel Charity collateral	228,355	-	-	228,355
Investment in property and equipment, net	2,772,183	-	-	2,772,183
Donor restricted - clubhouse/operating	-	507,096	-	507,096
Donor restricted - education	-	90,586	-	90,586
Donor restricted - endowments	-	-	884,950	884,950
	<u>\$ 5,660,828</u>	<u>\$ 597,682</u>	<u>\$ 884,950</u>	<u>\$ 7,143,460</u>

See independent auditor's report and accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

STATEMENT OF ACTIVITIES
For the year ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:				
Contributions	\$ 815,178	\$ 339,299	\$ -	\$ 1,154,477
Special events	733,753	-	-	733,753
In-kind contributions	272,636	-	-	272,636
Other grants	369,543	-	-	369,543
Investment income, net	181,211	-	-	181,211
Development fundraising	106,425	-	-	106,425
United Way	84,561	-	-	84,561
Government grants	81,566	-	-	81,566
Program service fees	46,124	-	-	46,124
Other revenues	17,051	-	-	17,051
Net assets released from restrictions:				
Satisfaction of donor restrictions	767,848	(767,848)	-	-
Total revenues and support	3,475,896	(428,549)	-	3,047,347
Expenses:				
Program services	2,480,710	-	-	2,480,710
Supporting services:				
General and administrative	349,354	-	-	349,354
Fund-raising	405,292	-	-	405,292
Special events- costs of direct donor benefits	374,338	-	-	374,338
Total expenses	3,609,694	-	-	3,609,694
Change in net assets	(133,798)	(428,549)	-	(562,347)
Net assets, beginning of year	6,160,284	1,030,860	853,950	8,045,094
Net assets, end of year	\$ 6,026,486	\$ 602,311	\$ 853,950	\$ 7,482,747
Nature of net assets:				
Unrestricted - undesignated	\$ 637,211	\$ -	\$ -	\$ 637,211
Unrestricted - board designated	2,032,916	-	-	2,032,916
Angel Charity collateral	378,238	-	-	378,238
Investment in property and equipment, net	2,978,121	-	-	2,978,121
Donor restricted - clubhouse/operating	-	516,382	-	516,382
Donor restricted - education	-	85,929	-	85,929
Donor restricted - endowments	-	-	853,950	853,950
	\$ 6,026,486	\$ 602,311	\$ 853,950	\$ 7,482,747

See independent auditor's report and accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2017

	Program Services	General and Administrative	Fund- Raising	Total
Payroll and related expenses	\$ 1,347,929	\$ 219,205	\$ 280,859	\$ 1,847,993
Supplies and club member meals	505,931	17,396	22,710	546,037
Depreciation	352,453	52,819	427	405,699
Professional fees	77,758	24,643	78,986	181,387
Repairs and maintenance	125,481	16,421	374	142,276
Insurance	50,040	7,770	4,726	62,536
Utilities	61,349	861	-	62,210
Conferences and meetings	19,569	15,067	5,846	40,482
Telephone	23,755	11,501	2,325	37,581
Transportation	23,656	2,582	434	26,672
Scholarships, awards and grants	16,626	-	-	16,626
National and membership dues	10,981	2,700	2,084	15,765
Printing and publication	7,512	2,414	4,601	14,527
Bad debt	-	-	12,899	12,899
Postage and shipping	645	1,210	9,140	10,995
Miscellaneous	725	2,392	444	3,561
Interest expense	25	-	-	25
Total functional expenses	<u>\$ 2,624,435</u>	<u>\$ 376,981</u>	<u>\$ 425,855</u>	<u>\$ 3,427,271</u>

See independent auditor's report and accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2016

	Program Services	General and Administrative	Fund- Raising	Total
Payroll and related expenses	\$ 1,337,838	\$ 176,636	\$ 259,224	\$ 1,773,698
Supplies and club member meals	403,914	18,714	18,884	441,512
Depreciation	366,869	54,165	1,311	422,345
Professional fees	76,283	42,150	92,563	210,996
Repairs and maintenance	82,474	14,188	67	96,729
Utilities	65,913	983	-	66,896
Insurance	50,568	6,598	4,788	61,954
Telephone	23,815	8,537	1,791	34,143
Conferences and meetings	15,667	14,133	1,645	31,445
Transportation	19,613	3,084	3,658	26,355
Printing and publication	6,186	1,962	11,465	19,613
National and membership dues	12,086	2,828	2,222	17,136
Scholarships, awards and grants	16,380	-	-	16,380
Postage and shipping	1,796	1,706	5,604	9,106
Miscellaneous	559	3,545	1,945	6,049
Interest expense	749	125	125	999
Total functional expenses	<u>\$ 2,480,710</u>	<u>\$ 349,354</u>	<u>\$ 405,292</u>	<u>\$ 3,235,356</u>

See independent auditor's report and accompanying notes to financial statements.

BOYS AND GIRLS CLUB OF TUCSON, INC.

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (339,287)	\$ (562,347)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	405,699	422,345
Change in allowance for net present value, unconditional promises to give	(10,733)	(49,730)
Change in allowance for uncollectible promises to give	(5,101)	-
Change in allowance for grants and contributions receivable	18,000	-
Net realized and unrealized gain on investments	(315,699)	(127,196)
Scheduled release of deferred grant obligation	(35,000)	(35,000)
Donated property and equipment	(5,500)	-
Changes in operating assets and liabilities:		
Bequest receivable	180,804	(192,500)
Grants and contributions receivable	(134,986)	9,703
Unconditional promises to give	76,000	475,000
Prepaid expenses and other current assets	1,006	(7,640)
Accounts payable	2,264	2,238
Accrued expenses	17,911	(1,886)
Deferred revenue	37,709	(9,843)
Total adjustments	<u>232,374</u>	<u>485,491</u>
Net cash used in operating activities	(106,913)	(76,856)
Cash flows from investing activities:		
Proceeds from sale of investments	1,273,201	1,424,236
Purchases of investments	(1,235,241)	(1,139,415)
Purchases of property and equipment	(159,261)	(154,218)
Net cash (used in) provided by investing activities	<u>(121,301)</u>	<u>130,603</u>
Cash flows from financing activities:		
Principal payments made on capital leases payable	-	(5,919)
Net cash used in financing activities	<u>-</u>	<u>(5,919)</u>
Change in cash and cash equivalents	(228,214)	47,828
Cash and cash equivalents, beginning of year	977,933	930,105
Cash and cash equivalents, end of year	<u>\$ 749,719</u>	<u>\$ 977,933</u>
Supplemental schedule of cash flow information:		
Cash paid during the year for interest	<u>\$ 25</u>	<u>\$ 999</u>
Supplemental disclosure of non-cash investing and financing information:		
Scheduled release of deferred grant obligation	<u>\$ 35,000</u>	<u>\$ 35,000</u>

See independent auditor's report and
accompanying notes to financial statements.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016

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 provide young people in Tucson, especially those who need them most, with a clear path to reach their full potential and pursue their dreams.

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.

Bequests Receivable

Bequests are recognized as contribution revenue in the period in which the Club receives notification that a will or trust has been enacted, the court has deemed the will or trust valid and all conditions have been substantially met. The revenue and related receivable is recorded at the amount which management estimates it will collect.

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.

Grants and Contributions Receivable

Grants and contributions are recognized as revenue in the period in which the Club receives notification of a grant or contribution. The Club provides an allowance for doubtful accounts that is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. The allowance for doubtful accounts related to grants and contributions receivable was \$18,000 and \$0 at December 31, 2017 and 2016, respectively.

See independent auditor's report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016

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

Income Taxes

The Club is exempt from federal income taxes under Internal Revenue Code Section (IRC) 501(c)(3) and from Arizona income tax under Arizona Revised Statute Section 43-1201(4). The Club is classified as other than a private foundation under Section 509(a)(1) 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, 2017, 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.

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.

See independent auditor's report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016

2. Summary of Significant Accounting Policies, Continued

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 2016 financial statements have been reclassified to conform to the 2017 financial statement presentation.

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, 2017 and 2016, the Club had cash and investments in the amount of \$3,337,723 and \$3,300,397, 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

The Club conducts an ongoing campaign to help raise funds for the Club. At December 31, 2017 and 2016, the balances due on pledges for this campaign are scheduled to be paid in future years as follows:

	2017	2016
2017	\$ -	\$ 125,000
2018	155,750	125,000
2019	143,250	125,000
Total unconditional promises to give	299,000	375,000
Less interest component at 3.25%	(6,710)	(17,443)
Less allowance for uncollectible promises receivable	-	(5,101)
Unconditional promises to give, net	292,290	352,456
Less current portion	(155,750)	(119,237)
Non-current portion	\$ 136,540	\$ 233,219

See independent auditor's report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016

5. Investments

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

	2017	2016
Mutual funds	\$ 2,406,490	\$ 2,415,437
Stocks	564,967	584,351
Corporate bonds	413,144	107,074
Total investments	3,384,601	3,106,862
Less current portion	(3,331,221)	(3,025,247)
Investments, non-current portion	<u>\$ 53,380</u>	<u>\$ 81,615</u>

As discussed in Note 8, 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, 2017 and 2016 include \$228,355 and \$378,238, respectively, pledged as collateral securing the note.

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

	2017	2016
Net realized and unrealized gain	\$ 315,699	\$ 127,196
Interest and dividend income	75,212	78,797
Investment expense	(25,753)	(24,782)
Investment income, net	<u>\$ 365,158</u>	<u>\$ 181,211</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 auditor's report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016

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, 2017 and 2016.

- *Stock, Corporate bonds, Mutual funds:* Valued at fair value based on national trade listing.

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, 2017				
	Level 1	Level 2	Level 3	Total
Stock	\$ 564,967	\$ -	\$ -	\$ 564,967
Corporate bonds	413,144	-	-	413,144
Mutual funds:				
International	654,420	-	-	654,420
Fixed income	523,458	-	-	523,458
Large cap growth	334,458	-	-	334,458
High yield bond	186,962	-	-	186,962
Small/mid cap diversified	175,296	-	-	175,296
Short-term bond	134,701	-	-	134,701
Investment grade	116,616	-	-	116,616
Sector and specialty	98,331	-	-	98,331
Balanced	71,807	-	-	71,807
Intermediate-term bond	71,173	-	-	71,173
Bond	39,268	-	-	39,268
Total assets	\$ 3,384,601	\$ -	\$ -	\$ 3,384,601

See independent auditor's report.

BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016

6. Fair Value Measurements, Continued

	Assets at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Stock	\$ 584,351	\$ -	\$ -	\$ 584,351
Corporate bonds	107,074	-	-	107,074
Mutual funds:				
International	493,493	-	-	493,493
Fixed income	423,510	-	-	423,510
Large cap growth	396,621	-	-	396,621
Intermediate-term bond	266,760	-	-	266,760
Investment grade	235,336	-	-	235,336
Balanced	215,494	-	-	215,494
Small/mid cap diversified	155,018	-	-	155,018
Short-term bond	108,375	-	-	108,375
Sector and specialty	85,006	-	-	85,006
High yield bond	26,168	-	-	26,168
Bond	9,656	-	-	9,656
Total assets	<u>\$ 3,106,862</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,106,862</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,:

	2017	2016
Buildings and building improvements	\$ 8,126,448	\$ 8,029,884
Equipment	1,418,031	1,349,834
Statues	11,408	11,408
Vehicles	214,206	214,206
Total property and equipment	9,770,093	9,605,332
Less accumulated depreciation	(6,822,910)	(6,417,211)
Property and equipment, net	<u>\$ 2,947,183</u>	<u>\$ 3,188,121</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.

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BOYS AND GIRLS CLUBS OF TUCSON, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016

7. Property and Equipment, Continued

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.

8. 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 (\$228,355 and \$378,238 at December 31, 2017 and 2016, 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 June 8, 2022.

Future maturities of the deferred grant obligation at December 31, 2017 are:

2018	\$	35,000
2019		35,000
2020		35,000
2021		35,000
2022		35,000
Total deferred grant obligation		175,000
Less current portion		(35,000)
Deferred grant obligation, non-current portion	\$	<u>140,000</u>

9. In-Kind Contributions

During the years ended December 31, 2017 and 2016, the Club recognized in-kind contributions, excluding those associated with special events, consisting of:

	<u>2017</u>	<u>2016</u>
Professional services	\$ 77,583	\$ 121,815
Supplies and club member meals	<u>225,603</u>	<u>258,366</u>
Total in-kind contributions	<u>\$ 303,186</u>	<u>\$ 380,181</u>

In-kind contributions during the year ended December 31, 2016 includes \$139,876 that was inadvertently unreported in the prior year financial statements.

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For the years ended December 31, 2017 and 2016

10. Summary of Special Events

The Club's special event activities for the years ended December 31, 2017 and 2016 consist of:

	2017		
	Revenue	Expenses	Net
Olson Dinner, including in-kind donations of \$59,925	\$ 289,565	\$ 103,520	\$ 186,045
The Event, including in-kind donations of \$154,374	351,009	246,877	104,132
Parties with a Purpose	24,711	10,271	14,440
Steak and Burger, including in-kind donations of \$75,938	220,346	141,481	78,865
	<u>\$ 885,631</u>	<u>\$ 502,149</u>	<u>\$ 383,482</u>

Special event expenses for the year ended December 31, 2017 include \$443,134 of direct donor benefit costs as reported on the statement of activities, and the remaining \$59,015 of other special event expenses are allocated on the statement of functional expenses as fundraising.

	2016		
	Revenue	Expenses	Net
Olson Dinner, including in-kind donations of \$7,125	\$ 131,830	\$ 16,493	\$ 115,337
The Event, including in-kind donations of \$132,326	314,532	221,348	93,184
Parties with a Purpose, including in-kind donations of \$500	45,140	18,923	26,217
Steak and Burger, including in-kind donations of \$107,545	242,251	156,634	85,617
	<u>\$ 733,753</u>	<u>\$ 413,398</u>	<u>\$ 320,355</u>

Special event expenses for the year ended December 31, 2016 include \$374,338 of direct donor benefit costs as reported on the statement of activities, and the remaining \$39,060 of other special event expenses are allocated on the statement of functional expenses as fundraising.

11. Lease Commitments

The Club has six equipment leases with expiration dates ranging from March 2017 to December 2022. Rent expense under these agreements was \$10,311 and \$9,714, during the years ended December 31, 2017 and 2016, respectively. Future minimum lease payments under these agreements are:

Year ended December 31,	
2018	\$ 9,906
2019	8,962
2020	8,460
2021	7,310
2022	2,121
Total future minimum lease payments	<u>\$ 36,759</u>

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BOYS AND GIRLS CLUBS OF TUCSON, INC.

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12. 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's matching contribution equals 25% on the first 8% of the Participant's compensation which is deferred as an elective deferral. Matching contributions shall be determined each payroll period. The minimum age required to participate in the plan is 21. Employees are eligible to participate after three months of service. Participants are immediately vested in their salary deferral contributions and become 100% vested in employer contributions after six years of participation in the plan. The Club contributed \$11,618 and \$11,177, respectively, during the years ended December 31, 2017 and 2016.

13. 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, 2017 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	-	-	186,950
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 884,950</u>

The Club received additional donor-restricted scholarship endowment fund contributions in the amount of \$31,000 during the year ended December 31, 2017.

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13. Endowment Funds, Continued

Endowment net asset composition by type of fund as of December 31, 2016 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>

14. Subsequent Events

The Club was unaware of any subsequent events as of June 4, 2018, the date the financial statements were available to be issued.

See independent auditor's report.