
**BIG BROTHERS BIG SISTERS OF SOUTHERN
ARIZONA, INC.**

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Big Brothers Big Sisters of Southern Arizona, Inc.
Tucson, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Big Brothers Big Sisters of Southern Arizona, Inc. ("BBBS") (an Arizona nonprofit corporation), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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.

(continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Brothers Big Sisters of Southern Arizona, Inc. as of December 31, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2018 the entity adopted new accounting guidance related to not-for-profit financial statement presentation. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2019, on our consideration of Big Brothers Big Sisters of Southern Arizona, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Big Brothers Big Sisters of Southern Arizona, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Big Brothers Big Sisters of Southern Arizona, Inc.'s internal control over financial reporting and compliance.



June 5, 2019
Tucson, Arizona

BIG BROTHERS BIG SISTERS OF SOUTHERN ARIZONA, INC.
STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

ASSETS

	2018	2017
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 303,813	\$ 404,011
Certificates of deposit	75,751	75,600
Accounts and contributions receivable	69,417	35,496
Prepaid expenses and other current assets	33,837	21,890
Beneficial interest in funds held by others	18,146	20,388
Property and equipment, net	936,730	974,771
Land held for investment	2,500	2,500
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,440,194</u>	<u>\$ 1,534,656</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 13,954	\$ 12,113
Accrued expenses	31,212	23,310
Deferred revenue	4,500	5,000
Mortgage note payable	100,827	115,241
	<u> </u>	<u> </u>
Total liabilities	<u>150,493</u>	<u>155,664</u>

NET ASSETS

Without donor restrictions		
Available for operations	280,787	325,783
Board-designated quasi-endowment	17,890	20,388
Board-designated reserve fund	100,000	100,000
Expended for property and equipment	835,903	859,530
	<u> </u>	<u> </u>
Total without donor restrictions	1,234,580	1,305,701
With donor restrictions	55,121	73,291
	<u> </u>	<u> </u>
Total net assets	<u>1,289,701</u>	<u>1,378,992</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 1,440,194</u>	<u>\$ 1,534,656</u>

The Notes to Financial Statements are an integral part of these statements

BIG BROTHERS BIG SISTERS OF SOUTHERN ARIZONA, INC.
STATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2018

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Government grants and contracts	\$ 101,986	\$ -	\$ 101,986
Special events, net of \$90,096 direct donor benefit costs	214,063	-	214,063
Contributions	449,830	125,000	574,830
Contributions - donation center	100,859	-	100,859
Bequest income	31,945	-	31,945
In-kind contributions	1,550	-	1,550
Rental income - donation center	23,637	-	23,637
Other revenue	1,323	-	1,323
Investment income (loss)	<u>(735)</u>	<u>-</u>	<u>(735)</u>
	924,458	125,000	1,049,458
 Net assets released from restriction			
Satisfaction of program restrictions	98,443	(98,443)	
Expiration of time restrictions	<u>44,727</u>	<u>(44,727)</u>	<u>-</u>
 Total support and revenue	<u>1,067,628</u>	<u>(18,170)</u>	<u>1,049,458</u>
EXPENSES			
Program services	931,013	-	931,013
Management and general	104,119	-	104,119
Fundraising	<u>103,617</u>	<u>-</u>	<u>103,617</u>
 Total expenses	<u>1,138,749</u>	<u>-</u>	<u>1,138,749</u>
 CHANGE IN NET ASSETS	 (71,121)	 (18,170)	 (89,291)
 NET ASSETS, BEGINNING OF YEAR	 <u>1,305,701</u>	 <u>73,291</u>	 <u>1,378,992</u>
 NET ASSETS, END OF YEAR	 <u><u>\$ 1,234,580</u></u>	 <u><u>\$ 55,121</u></u>	 <u><u>\$ 1,289,701</u></u>

The Notes to Financial Statements are an integral part of these statements

BIG BROTHERS BIG SISTERS OF SOUTHERN ARIZONA, INC.
STATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
SUPPORT AND REVENUE			
Government grants and contracts	\$ 16,938	\$ -	\$ 16,938
Other grants	-	-	-
Special events, net of \$104,395 direct donor benefit costs	242,754	-	242,754
Contributions	499,657	50,000	549,657
Contribution - donation center	109,506	-	109,506
Bequest income	43,718	-	43,718
In-kind contributions	1,230	-	1,230
Rental income - donation center	23,637	-	23,637
Other revenue	1,929	-	1,929
Investment income	3,143	-	3,143
	<u>942,512</u>	<u>50,000</u>	<u>992,512</u>
 Net assets released from restriction Expiration of time restrictions	 69,209	 (69,209)	 -
 Total support and revenue	 <u>1,011,721</u>	 <u>(19,209)</u>	 <u>992,512</u>
EXPENSES			
Program services	860,456	-	860,456
Management and general	83,958	-	83,958
Fundraising	81,399	-	81,399
	<u>1,025,813</u>	<u>-</u>	<u>1,025,813</u>
 CHANGE IN NET ASSETS	 (14,092)	 (19,209)	 (33,301)
 NET ASSETS, BEGINNING OF YEAR	 <u>1,319,793</u>	 <u>92,500</u>	 <u>1,412,293</u>
 NET ASSETS, END OF YEAR	 <u><u>\$ 1,305,701</u></u>	 <u><u>\$ 73,291</u></u>	 <u><u>1,378,992</u></u>

The Notes to Financial Statements are an integral part of these statements

BIG BROTHERS BIG SISTERS OF SOUTHERN ARIZONA, INC.
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Totals</u>
Salaries	\$ 483,034	\$ 56,669	\$ 66,818	\$ 606,521
Payroll taxes and employee benefits	89,639	15,863	11,733	117,235
	<u>572,673</u>	<u>72,532</u>	<u>78,551</u>	<u>723,756</u>
Communications	5,248	561	669	6,478
Depreciation	31,404	3,718	4,430	39,552
Facilities and occupancy	33,374	3,550	4,280	41,204
Insurance	21,985	-	-	21,985
Operations and office expenses	42,917	12,754	4,198	59,869
Payments to affiliated organizations	18,686	-	-	18,686
Professional development	30,702	640	928	32,270
Professional fees and contract services	76,185	10,023	10,095	96,303
Program expenses	94,664	-	60	94,724
Small equipment	3,175	341	406	3,922
Special event expenses	-	-	90,096	90,096
	<u>931,013</u>	<u>104,119</u>	<u>193,713</u>	<u>1,228,845</u>
Total functional expenses	931,013	104,119	193,713	1,228,845
Less direct donor benefit costs netted against revenues	<u>-</u>	<u>-</u>	<u>(90,096)</u>	<u>(90,096)</u>
Total expenses	<u><u>\$ 931,013</u></u>	<u><u>\$ 104,119</u></u>	<u><u>\$ 103,617</u></u>	<u><u>\$ 1,138,749</u></u>

The Notes to Financial Statements are an integral part of these statements

BIG BROTHERS BIG SISTERS OF SOUTHERN ARIZONA, INC.
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	Program services	Management and general	Fundraising	Totals
Salaries	\$ 420,757	\$ 59,566	\$ 54,705	\$ 535,028
Payroll taxes and employee benefits	81,715	8,410	8,057	98,182
	<u>502,472</u>	<u>67,976</u>	<u>62,762</u>	<u>633,210</u>
Bad debt	-	-	-	-
Communications	6,452	344	344	7,140
Depreciation	40,023	2,224	2,224	44,471
Facilities and occupancy	37,208	1,876	1,879	40,963
Insurance	22,733	190	190	23,113
Operations and office expenses	45,343	2,528	7,865	55,736
Payments to affiliated organizations	13,610	189	189	13,988
Professional development	18,162	3,394	709	22,265
Professional fees and contract services	89,146	4,953	4,953	99,052
Program expenses	79,739	-	-	79,739
Small equipment	5,568	284	284	6,136
Special event expenses	-	-	104,395	104,395
	<u>860,456</u>	<u>83,958</u>	<u>185,794</u>	<u>1,130,208</u>
Total functional expenses	860,456	83,958	185,794	1,130,208
Less direct donor benefit costs netted against revenues	-	-	(104,395)	(104,395)
	<u>-</u>	<u>-</u>	<u>(104,395)</u>	<u>(104,395)</u>
Total expenses	<u>\$ 860,456</u>	<u>\$ 83,958</u>	<u>\$ 81,399</u>	<u>\$ 1,025,813</u>

The Notes to Financial Statements are an integral part of these statements

BIG BROTHERS BIG SISTERS OF SOUTHERN ARIZONA, INC.
STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (89,291)	\$ (33,301)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Change in value of beneficial interest in funds held by others	2,242	(2,498)
Interest from certificates of deposit	(151)	(151)
Depreciation	39,552	44,471
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	(33,921)	(28,458)
Contributions receivable	-	129,801
Prepaid expenses and other current assets	(11,947)	506
Accounts payable	1,841	3,833
Accrued expenses	7,902	2,289
Deferred revenue	<u>(500)</u>	<u>5,000</u>
Net cash (used) provided by operating activities	(84,273)	121,492
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,511)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on note payable	<u>(14,414)</u>	<u>(15,126)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(100,198)	106,366
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>404,011</u>	<u>297,645</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 303,813</u></u>	<u><u>\$ 404,011</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u><u>\$ 5,512</u></u>	<u><u>\$ 6,291</u></u>

The Notes to Financial Statements are an integral part of these statements

BIG BROTHERS BIG SISTERS OF SOUTHERN ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Big Brothers Big Sisters of Southern Arizona, Inc. (“BBBS”) was formed as a result of the merger of Big Brothers of Tucson and Big Sisters of Tucson in 1981. BBBS changed its name from Big Brothers Big Sisters of Tucson, Inc. during the year ended December 31, 2018. BBBS is an agency member of Big Brothers/Big Sisters of America and serves the communities of Southern Arizona. The mission of BBBS is to develop one-to-one stable and consistent mentor relationships guiding youth from a position of risk to one of achieving their highest potential.

Financial Statement Presentation

The financial statements are presented in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205, Not-for-Profit Entities, Presentation of Financial Statements. During 2018, BBBS adopted the provisions of Accounting Standards Update (“ASU”) 2016-14: Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities, which improves the current net asset classification and the related information presented in the financial statements and notes about BBBS’s liquidity, financial performance, and cash flows.

Net assets are now presented in two classifications, as follows:

- Net assets with donor restrictions – restrictions may be either time related or purpose related.
- Net assets without donor restrictions

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

BBBS considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. BBBS maintains its cash in investment brokerage accounts and in bank deposit accounts which may, from time to time, exceed federally insured limits. At December 31, 2018, all of BBBS's cash holdings were fully insured.

Accounts and Contributions Receivable

Contributions receivable are stated at unpaid balances BBBS expects to collect from grantors and contributors within one year. Management believes all receivables are fully collectible and accordingly has recorded no valuation allowance. It is BBBS policy to charge off uncollectible contributions receivable when management determines the receivable will not be collected.

Property and Equipment

Property and equipment acquisitions over \$5,000 with a useful life of more than one year are capitalized at cost, when purchased or at estimated fair market value at date of gift, when donated. Depreciation is recorded over the estimated useful lives of the related assets using the straight-line method. The cost of repairs and maintenance and all other equipment purchases are charged to expense in the year incurred.

Advertising Expense

Advertising costs are expensed as incurred. Advertising costs are included in Program Expenses on the statements of functional expenses, and were \$31,043 and \$14,466 for the years ended December 31, 2018 and 2017, respectively.

Recognition of Donor Restrictions

Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is received. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Under U. S. GAAP, contributions or pledges that are received with time and/or purpose restrictions are recorded as revenue in the year the contribution or pledge is received, even though the restriction will be met in a future period. Due to this prescribed revenue treatment, BBBS may appear to operate in a deficit position in subsequent years, as the contributions or pledges previously received are released from net assets with donor restrictions for use to fulfill their intended purpose.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Goods, Facilities and Services

Donated goods and space are valued at their fair market value. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Although BBBS utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

Income Tax Status

BBBS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to BBBS's tax-exempt purpose may be subject to taxation as unrelated business income. In addition, BBBS qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

BBBS has not identified any uncertain tax positions that require reporting under U.S. generally accepted accounting principles. BBBS would recognize interest related to any such uncertainties in interest expense and penalties in operating expenses. During the years ended December 31, 2018 and 2017, BBBS recognized no such interest or penalties. No audits are in progress by either the federal or state authorities.

Functional Expenses and Special Event Expenses

The costs of providing the various program services and supporting activities of BBBS have been summarized on a functional basis in the statement of activities and presented in full in the statement functional expenses. Accordingly, certain costs have been allocated among program and supporting services benefitted.

Special event expenses on the statement of functional expenses include direct donor benefit costs, supplies, professional services and printing and postage costs related to special events.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

- Revenue Recognition

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), that will supersede the current revenue recognition requirements. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The original implementation effective date was deferred upon the issuance of ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The new guidance will be effective for BBBS's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. BBBS has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.

- Leases

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, Leases (Topic 842), that will supersede the current lease requirements. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either financing or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital lease obligations recognized on the consolidated balance sheet. Lessor accounting under the new standard will remain similar to lessor accounting under current GAAP. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for BBBS's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the financial statements has not yet been determined.

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2. LIQUIDITY AND AVAILABILITY OF FUNDS

BBBS's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are as follows.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 303,813	\$ 404,011
Certificates of deposit	75,751	75,600
Accounts and contributions receivable	<u>69,417</u>	<u>35,496</u>
Total	<u>\$ 448,981</u>	<u>\$ 515,107</u>

As part of BBBS liquidity management plan, they invest cash in excess of daily requirements in short-term investments, certificates of deposit, and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was \$100,000 at December 31, 2018 and 2017. To help manage unanticipated liquidity needs, BBBS is in the process of renewing a line of credit in the amount of \$100,000 upon which it could draw.

3. BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS

In 1990, BBBS transferred \$14,586 to the Community Foundation for Southern Arizona ("CFSA") to establish the Gerald Ferro Memorial Fund for Big Brothers Big Sisters of Southern Arizona, Inc. CFSA, an Arizona non-profit corporation, holds and administers the endowment fund (including subsequent contributions and future earnings) for the benefit of BBBS. The agency fund agreement provides that CFSA shall have the power to modify any restriction or condition on distributions from the Fund for any specific charitable purposes or to specific organizations, if in the sole judgment of CFSA the restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs served by CFSA.

BBBS is entitled to receive up to semi-annual distributions from the Fund as determined by CFSA, or BBBS can opt to reinvest the distribution by leaving it in the Fund. CFSA has the ultimate authority over and control of all property in the Fund and all distributions from the Fund. The balance of the Fund was \$18,146 and \$20,388 at December 31, 2018 and 2017, respectively.

(continued)

4. PROPERTY

Property and equipment at December 31, 2018 and December 31, 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 50,000	\$ 50,000
Building	1,468,106	1,468,106
Furniture, fixtures, and equipment	<u>94,502</u>	<u>92,991</u>
	1,612,608	1,611,097
Less accumulated depreciation	<u>(675,878)</u>	<u>(636,326)</u>
Total	<u>\$ 936,730</u>	<u>\$ 974,771</u>

5. MORTGAGE NOTE PAYABLE

In March 2015, BBBS obtained a mortgage loan. The principal amount of the mortgage loan was \$155,000 with monthly payments of \$1,063 of principal and interest at 4.99% per annum until maturing in February 2024, with a balloon payment due of the unpaid principal. The mortgage is collateralized by real property. Future principal payments on the mortgage note payable are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2019	\$ 7,896
2020	8,287
2021	8,724
2022	9,171
2023	9,640
Thereafter	<u>57,109</u>
Total	<u>\$ 100,827</u>

6. FAIR VALUE MEASUREMENTS AND INVESTMENT INCOME

Fair value measurements are determined based on the assumptions (referred to as inputs) that market participants would use in pricing the asset. The fair value hierarchy distinguishes between market participant assumptions and BBBS's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources, while unobservable inputs are BBBS's own assumptions about what market participants would assume based on the best information available in the circumstances.

(continued)

6. FAIR VALUE MEASUREMENTS AND INVESTMENT INCOME (continued)

Level 1 inputs. A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. The fair value of BBBS's publicly traded securities are determined by reference to quoted prices in active markets for identical assets and other relevant information generated by market transactions.

Level 2 inputs. These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. BBBS does not utilize Level 2 inputs.

Level 3 inputs. These inputs are unobservable and are used to measure fair value only when observable inputs are not available. BBBS' land held for investment is valued utilizing Level 3 inputs, including market value information from county property tax statements. BBBS has established a beneficial interest in board-designated quasi-endowment funds held at the Community Foundation for Southern Arizona (CFSA). CFSA does not have variance power related to this endowment. This beneficial interest is considered as valued based on Level 3 inputs, as BBBS owns units of pooled funds held at CFSA and relies on CFSA to provide the value of these funds. At CFSA, these pooled investments are primarily held in marketable securities and are considered to be valued based on Level 1 inputs.

Fair values of assets measured on a recurring basis at December 31, 2018 were as follows:

	<u>Level 3</u>	<u>Total</u>
Beneficial interest in funds held at CFSA	\$ 18,146	\$ 18,146
Land held for investment	<u>2,500</u>	<u>2,500</u>
Total	<u>\$ 20,646</u>	<u>\$ 20,646</u>

Fair values of assets measured on a recurring basis at December 31, 2017 were as follows:

	<u>Level 3</u>	<u>Total</u>
Beneficial interest in funds held at CFSA	\$ 20,388	\$ 20,388
Land held for investment	<u>2,500</u>	<u>2,500</u>
Total	<u>\$ 22,888</u>	<u>\$ 22,888</u>

(continued)

6. FAIR VALUE MEASUREMENTS AND INVESTMENT INCOME (continued)

Activity related to assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) was as follows for the year ended December 31, 2018:

	<u>Beginning balance</u>	<u>Change in value</u>	<u>Distributions</u>	<u>Ending balance</u>
Beneficial interest in funds held at CFSA	\$ 20,388	\$ (2,242)	\$ -	\$ 18,146
Land held for investment	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
Total	<u>\$ 22,888</u>	<u>\$ (2,242)</u>	<u>\$ -</u>	<u>\$ 20,646</u>

Activity related to assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) was as follows for the year ended December 31, 2017:

	<u>Beginning balance</u>	<u>Change in value</u>	<u>Distributions</u>	<u>Ending balance</u>
Beneficial interest in funds held at CFSA	\$ 17,890	\$ 2,498	\$ -	\$ 20,388
Land held for investment	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
Total	<u>\$ 20,390</u>	<u>\$ 2,498</u>	<u>\$ -</u>	<u>\$ 22,888</u>

7. LINE OF CREDIT

BBBS has a line of credit with a financial institution, which matured in April 2018, and was extended to June 30, 2018. The line of credit allows for maximum draws of \$100,000, and interest is the prime rate as set by the lender from time to time plus 1.75%, with a floor of 5%. There was no balance on the line of credit at either December 31, 2018 and 2017. BBBS is in the process of renewing this line of credit as of the date of these financial statements.

(continued)

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restriction activity was as follows for the year ended December 31, 2018:

	<u>Beginning balance</u>	<u>Contri- butions</u>	<u>Releases</u>	<u>Ending balance</u>
iMentor program implementation	\$ 44,727	\$ -	\$ (44,727)	\$ -
Improved program and donor software	-	40,000	(18,136)	21,864
Marketing	<u>28,564</u>	<u>85,000</u>	<u>(80,307)</u>	<u>33,257</u>
Total	<u>\$ 73,291</u>	<u>\$ 125,000</u>	<u>\$ (143,170)</u>	<u>\$ 55,121</u>

Net assets with donor restriction activity was as follows for the year ended December 31, 2017:

	<u>Beginning balance</u>	<u>Contri- butions</u>	<u>Releases</u>	<u>Ending balance</u>
iMentor program implementation	\$ 92,500	\$ -	\$ (47,773)	\$ 44,727
Marketing	<u>-</u>	<u>50,000</u>	<u>(21,436)</u>	<u>28,564</u>
Total	<u>\$ 92,500</u>	<u>\$ 50,000</u>	<u>\$ (69,209)</u>	<u>\$ 73,291</u>

Before BBBS implemented ASU 2016-14 as noted in Note 1, the net assets with donor restrictions for the year ended December 31, 2017 were all classified as temporarily restricted net assets.

9. IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Facilities and occupancy	\$ 1,550	\$ -
Special event	<u>-</u>	<u>1,230</u>
Total	<u>\$ 1,550</u>	<u>\$ 1,230</u>

(continued)

10. OPERATING LEASES

BBBS leases office equipment under non-cancellable operating leases which expire in 2021 and 2022. Lease expense totaled \$3,921 and \$6,136 for the years ended December 31, 2018 and 2017. Future minimum lease payments required under the leases are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2019	\$ 2,881
2020	2,881
2021	2,608
2023	<u>596</u>
Total	<u>\$ 8,966</u>

11. PENSION PLAN

BBBS contributes to a simplified employee pension plan for its employees. All employees earning a minimum of \$6,000 with BBBS are eligible to participate in the plan and may do so by the first of the month after their hire date. There is a dollar-for-dollar match deferred of 1% to 3% of the employees' annual salary as approved by the Board of Directors. Contributions to the plan for the years ended December 31, 2018 and 2017 totaled \$11,825 and \$6,733, respectively.

12. RELATED PARTY TRANSACTIONS

Big Brothers Big Sisters of Tucson, Inc. Donation Center ("Donation Center") was formed in 2006 to collect donations and resell them to local Savers Thrift Stores with 100% of the net proceeds supporting BBBS and its youth mentoring services. Total contributions received from the Donation Center for the years ended December 31, 2018 and 2017 was \$100,859 and \$109,506, respectively. In addition, rental income received from the Donation Center in a month-to-month lease totaled \$23,637 and \$23,637 during the years ended December 31, 2018 and 2017, respectively.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 5, 2019, which is the date the financial statements were available to be issued.

GOVERNMENT REPORT

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Big Brothers Big Sisters of Southern Arizona, Inc.
Tucson, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Big Brothers Big Sisters of Southern Arizona, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 5, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Big Brothers Big Sisters of Southern Arizona, Inc.’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Big Brothers Big Sisters of Southern Arizona, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of Big Brothers Big Sisters of Southern Arizona, Inc.’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Brothers Big Sisters of Southern Arizona, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Regier Cant & Monroe, L.L.P.

June 5, 2019
Tucson, Arizona