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

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

DECEMBER 31, 2019 AND 2018



BIG BROTHERS BIG SISTERS OF SOUTHERN ARIZONA, INC.

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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, 2019 and 2018, 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, 2019 and 2018, 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 2019 the entity adopted new accounting guidance related to revenue recognition and the presentation of leases. 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 July 14, 2020, 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.



July 14, 2020
Tucson, Arizona

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

December 31, 2019 and 2018

ASSETS

	2019	2018
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 478,927	\$ 303,813
Certificates of deposit	77,184	75,751
Accounts and contributions receivable	38,472	69,417
Prepaid expenses and other current assets	31,972	33,837
Beneficial interest in funds held by others	20,810	18,146
Property and equipment, net	901,742	936,730
Land held for investment	2,500	2,500
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,551,607</u>	<u>\$ 1,440,194</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 33,259	\$ 13,954
Accrued expenses	38,245	31,212
Deferred revenue	49,500	4,500
Operating lease obligations	3,971	-
Mortgage note payable	84,927	100,827
	<u> </u>	<u> </u>
Total liabilities	<u>209,902</u>	<u>150,493</u>

NET ASSETS

Without donor restrictions		
Available for operations	321,163	280,787
Board-designated quasi-endowment	17,890	17,890
Board-designated reserve fund	100,000	100,000
Expended for property and equipment	816,815	835,903
	<u> </u>	<u> </u>
Total without donor restrictions	1,255,868	1,234,580
With donor restrictions	85,837	55,121
	<u> </u>	<u> </u>
Total net assets	<u>1,341,705</u>	<u>1,289,701</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 1,551,607</u>	<u>\$ 1,440,194</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, 2019

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Government grants and contracts	\$ 111,824	\$ -	\$ 111,824
Special events, net of \$116,053 direct donor benefit costs	241,871	-	241,871
Contributions	486,740	101,250	587,990
Contributions - donation center	96,388	-	96,388
Bequest income	47,825	-	47,825
Rental income - donation center	23,637	-	23,637
Other revenue	255	-	255
Investment income	4,339	-	4,339
	<u>1,012,879</u>	<u>101,250</u>	<u>1,114,129</u>
 Net assets released from restriction Satisfaction of program restrictions	 <u>70,534</u>	 <u>(70,534)</u>	 <u>-</u>
 Total support and revenue	 <u>1,083,413</u>	 <u>30,716</u>	 <u>1,114,129</u>
EXPENSES			
Program services	886,763	-	886,763
Management and general	111,513	-	111,513
Fundraising	63,849	-	63,849
	<u>1,062,125</u>	<u>-</u>	<u>1,062,125</u>
 CHANGE IN NET ASSETS	 21,288	 30,716	 52,004
 NET ASSETS, BEGINNING OF YEAR	 <u>1,234,580</u>	 <u>55,121</u>	 <u>1,289,701</u>
 NET ASSETS, END OF YEAR	 <u>\$ 1,255,868</u>	 <u>\$ 85,837</u>	 <u>\$ 1,341,705</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

	Without Donor Restrictions	With Donor Restrictions	Totals
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
Contribution - 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)	(735)	-	(735)
	924,458	125,000	1,049,458
Net assets released from restriction			
Satisfaction of program restrictions	98,443	(98,443)	-
Expiration of time restrictions	44,727	(44,727)	-
Total support and revenue	1,067,628	(18,170)	1,049,458
EXPENSES			
Program services	931,013	-	931,013
Management and general	104,119	-	104,119
Fundraising	103,617	-	103,617
Total expenses	1,138,749	-	1,138,749
CHANGE IN NET ASSETS			
	(71,121)	(18,170)	(89,291)
NET ASSETS, BEGINNING OF YEAR			
	1,305,701	73,291	1,378,992
NET ASSETS, END OF YEAR			
	\$ 1,234,580	\$ 55,121	1,289,701

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, 2019

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Totals</u>
Salaries	\$ 466,256	\$ 66,881	\$ 38,289	\$ 571,426
Payroll taxes and employee benefits	91,778	13,159	7,536	112,473
	<u>558,034</u>	<u>80,040</u>	<u>45,825</u>	<u>683,899</u>
Communications	4,647	667	382	5,696
Depreciation	34,988	4,975	2,849	42,812
Facilities and occupancy	30,039	4,307	2,466	36,812
Grants and Direct Assistance	2,500	-	-	2,500
Insurance	27,592	-	-	27,592
Operations and office expenses	46,764	5,566	3,188	55,518
Payments to affiliated organizations	18,221	213	122	18,556
Professional development	15,723	2,254	1,291	19,268
Professional fees and contract services	80,202	11,500	6,585	98,287
Program expenses	68,043	1,990	1,140	71,173
Small equipment	10	1	1	12
Special event expenses	-	-	116,053	116,053
	<u>886,763</u>	<u>111,513</u>	<u>179,902</u>	<u>1,178,178</u>
Total functional expenses	886,763	111,513	179,902	1,178,178
Less direct donor benefit costs netted against revenues	<u>-</u>	<u>-</u>	<u>(116,053)</u>	<u>(116,053)</u>
Total expenses	<u>\$ 886,763</u>	<u>\$ 111,513</u>	<u>\$ 63,849</u>	<u>\$ 1,062,125</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

	Program services	Management and general	Fundraising	Totals
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>\$ 931,013</u>	<u>\$ 104,119</u>	<u>\$ 103,617</u>	<u>\$ 1,138,749</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 52,004	\$ (89,291)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Change in value of beneficial interest in funds held by others	(2,664)	2,242
Interest from certificates of deposit	(1,434)	(151)
Depreciation	42,812	39,552
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	30,945	(33,921)
Prepaid expenses and other current assets	1,865	(11,947)
Accounts payable	19,305	1,841
Accrued expenses	7,033	7,902
Operating lease obligation	3,971	-
Deferred revenue	<u>45,000</u>	<u>(500)</u>
Net cash (used) provided by operating activities	198,837	(84,273)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(7,823)	(1,511)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on note payable	<u>(15,900)</u>	<u>(14,414)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	175,114	(100,198)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>303,813</u>	<u>404,011</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 478,927</u>	<u>\$ 303,813</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 4,743</u>	<u>\$ 5,512</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, 2019 and 2018

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*. The FASB is responsible for establishing accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Change in Accounting Principle – Revenue Recognition

BBBS records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

BBBS recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. There were no conditional contributions for the years ended December 2019 and 2018.

BBBS has adopted Accounting Standards Update (ASU) No. 2014-09 – *Revenue from Contracts with Customers (Topic 606)*, as amended as management believes the standard improves the usefulness and understandability of BBBS’s financial reporting.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Analysis of various provisions of this standard resulted in no significant changes in the way BBBS recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with standard.

BBBS has adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* as management believes the standard improves the usefulness and understandability of BBBS's financial reporting. The adoption of this new guidance did not impact the presentation of these financial statements.

Change in Accounting Principle – Leases

During 2019, BBBS early adopted the provisions of ASU 2016-02: *Leases (Topic 842)*, and other ASUs released since that ASU, that amend or clarify the ASU. BBBS adopted the new standard retrospectively as of January 1, 2019. The ASU allows for the following practical expedients which BBBS elected to use, these are: 1) BBBS did not reassess whether any expired or existing contracts are or contain leases; 2) BBBS did not reassess the lease classification for any expired or existing leases; and 3) BBBS did not reassess the initial direct costs for existing leases to determine if there is a prepaid lease asset.

Because BBBS adopted this standard as of January 1, 2019, the standard requires BBBS to continue to present the disclosure information for the old standard as long as leases are presented on the financial statements under the old lease standards. See Note 10.

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.

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. The uninsured amounts of cash were approximately \$93,000 at December 31, 2019. These amounts are not collateralized, which is within normal business practices. Management does not believe they are exposed to any significant credit risks.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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's 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 \$17,011 and \$31,043, for the years ended December 31, 2019 and 2018, 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.

(continued)

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, 2019 and 2018, 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.

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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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 478,927	\$ 303,813
Certificates of deposit	77,184	75,751
Accounts and contributions receivable	<u>38,472</u>	<u>69,417</u>
 Total financial assets	 594,583	 448,981
 Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>85,837</u>	<u>55,121</u>
 Financial assets available to meet general expenditures over the next twelve months	 <u>\$ 508,746</u>	 <u>\$ 393,860</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, 2019 and 2018.

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 ("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 \$20,810 and \$18,146 at December 31, 2019 and 2018, respectively.

(continued)

4. PROPERTY

Property and equipment at December 31, 2019 and December 31, 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 50,000	\$ 50,000
Building	1,468,106	1,468,106
Furniture, fixtures, and equipment	94,502	94,502
Right of use assets	<u>7,823</u>	<u>-</u>
	1,620,431	1,612,608
Less accumulated depreciation	<u>(718,689)</u>	<u>(675,878)</u>
Total	<u>\$ 901,742</u>	<u>\$ 936,730</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:

Year ending December 31,

2020	\$ 8,698
2021	9,155
2022	9,623
2023	10,115
Thereafter	<u>47,336</u>
Total	<u>\$ 84,927</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's 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 has 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.

(continued)

6. FAIR VALUE MEASUREMENTS AND INVESTMENT INCOME (continued)

Fair values of assets measured on a recurring basis at December 31, 2019, were as follows:

	<u>Level 3</u>	<u>Total</u>
Beneficial interest in funds held at CFSA	\$ 20,810	\$ 20,810
Land held for investment	<u>2,500</u>	<u>2,500</u>
Total	<u>\$ 23,310</u>	<u>\$ 23,310</u>

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>

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, 2019:

	<u>Beginning Balance</u>	<u>Change in Value</u>	<u>Distributions</u>	<u>Ending Balance</u>
Beneficial interest in funds held at CFSA	\$ 18,146	\$ 2,664	\$ -	\$ 20,810
Land held for investment	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
Total	<u>\$ 20,646</u>	<u>\$ 2,664</u>	<u>\$ -</u>	<u>\$ 23,310</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, 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>

(continued)

7. LINE OF CREDIT

BBBS had a line of credit with a financial institution, which matured in June 2019. The line of credit allowed for maximum draws of \$100,000, and interest was 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 December 31, 2018.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restriction activity was as follows for the year ended December 31, 2019:

	<u>Beginning Balance</u>	<u>Contri- butions</u>	<u>Releases</u>	<u>Ending Balance</u>
United Way	\$ -	\$ 59,750	\$ -	\$ 59,750
Improved program and donor software	21,864	-	(11,664)	10,200
Comcast Beyond School Walls	-	39,000	(25,613)	13,387
Program Scholarship Grant	-	2,500	-	2,500
Marketing	<u>33,257</u>	<u>-</u>	<u>(33,257)</u>	<u>-</u>
Total	<u>\$ 55,121</u>	<u>\$ 101,250</u>	<u>\$ (70,534)</u>	<u>\$ 85,837</u>

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>

(continued)

9. IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Facilities and occupancy	\$ <u> -</u>	\$ <u> 1,550</u>

10. LEASES

BBBS leases office equipment under non-cancellable operating leases which expire in 2021 and 2022. During the year beginning January 1, 2019, BBBS adopted ASU 2016-02: *Leases (Topic 842)*. This new standard required BBBS to do the following:

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position. In this case, using the option of implementing the standard on retrospectively as of January 1, 2019, BBBS measured the right-of-use asset and the lease liability for the two leases in effect as of that date as the present value of the remaining lease payments.
2. Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis.
3. Classify all cash payments within operating activities on the statement of cash flows.

Future minimum lease payments required under the leases are as follows:

Year ending December 31,

2020	\$ 2,833
2021	2,560
2022	<u>580</u>
Total	5,973
Interest	<u>2,002</u>
Operating lease liability, December 31, 2019	\$ <u> 3,971</u>

(continued)

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, 2019 and 2018, totaled \$11,584 and \$11,825, 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, 2019 and 2018, was \$96,388 and \$100,859, 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, 2019 and 2018, respectively.

13. SUBSEQUENT EVENTS

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of non-essential business. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, BBBS expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

In May 2020, BBBS received a Paycheck Protection Program loan from the U.S. Small Business Administration. The loan may be forgivable in whole or in part. The proceeds received were \$122,935. Under current regulations, for any portion that is not forgiven, BBBS will have to repay it over a two year period beginning in December 2020. The loan is unsecured and bears interest at 1%.

Subsequent events have been evaluated through July 14, 2020, 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, 2019, 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 July 14, 2020.

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.

July 14, 2020
Tucson, Arizona