

**BIG BROTHERS BIG SISTERS
OF CENTRAL ARIZONA
PHOENIX, ARIZONA**

**CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013**

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Big Brothers Big Sisters of Central Arizona
Phoenix, Arizona

We have audited the accompanying consolidated financial statements of Big Brothers Big Sisters of Central Arizona, which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Big Brothers Big Sisters of Central Arizona as of June 30, 2013, and the change in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding a Correction of an Error

As discussed in Note 18 to the financial statements, an error resulting in an unrecorded asset for an unemployment trust fund as of June 30, 2012, was discovered by management of the entity during the current year. Accordingly, amounts reported for unemployment trust fund asset and unrestricted net assets have been restated as of June 30, 2012, to correct the error. Our opinion is not modified with respect to this matter.

CliftonLarsonAllen LLP

Phoenix, Arizona
November 26, 2013

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013**

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$	303,260
Grants and contributions receivable		45,900
Investments		340,234
Prepaid expenses and other		14,781
Due from an affiliate		160,964
Total current assets		865,139
PROPERTY AND EQUIPMENT, NET		
		31,008
OTHER ASSETS		
Investments		139,327
Unemployment trust fund		36,870
Other assets		49,286
Total other assets		225,483
TOTAL ASSETS		\$ 1,121,630
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$	23,686
Accrued expenses		27,168
Current maturities of obligations under capital leases		1,815
Deferred revenue		15,000
Total current liabilities		67,669
NET ASSETS		
Unrestricted		850,682
Temporarily restricted		103,279
Permanently restricted		100,000
Total net assets		1,053,961
TOTAL LIABILITIES AND NET ASSETS		\$ 1,121,630

See accompanying Notes to Consolidated Financial Statements.

BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
PUBLIC SUPPORT AND REVENUES				
Public support:				
Contributions	\$ 259,556	\$ 184,126	\$ -	\$ 443,682
In-kind contributions	132,157	7,675	-	139,832
United Way	-	388,040	-	388,040
Big Brothers Big Sisters of Central Arizona Association	768,372	-	-	768,372
Grants and contracts	91,876	204,607	-	296,483
Total public support	<u>1,251,961</u>	<u>784,448</u>	<u>-</u>	<u>2,036,409</u>
Revenues:				
Interest and dividend income	12,219	-	-	12,219
Unrealized gain on investments	36,098	-	-	36,098
Realized gain on investments	2,087	-	-	2,087
Other	12,677	-	-	12,677
Total revenues	<u>63,081</u>	<u>-</u>	<u>-</u>	<u>63,081</u>
Special events:				
Revenue from special events	269,170	-	-	269,170
Less costs of direct donor benefits	<u>(26,499)</u>	<u>-</u>	<u>-</u>	<u>(26,499)</u>
Gross profit on special events	<u>242,671</u>	<u>-</u>	<u>-</u>	<u>242,671</u>
Net assets released from restrictions	<u>751,667</u>	<u>(751,667)</u>	<u>-</u>	<u>-</u>
Total public support, revenues and special events	<u>2,309,380</u>	<u>32,781</u>	<u>-</u>	<u>2,342,161</u>
EXPENSES				
Mentoring program	1,704,543	-	-	1,704,543
Management and general	238,665	-	-	238,665
Fundraising	368,700	-	-	368,700
Total expenses	<u>2,311,908</u>	<u>-</u>	<u>-</u>	<u>2,311,908</u>
CHANGES IN NET ASSETS	<u>(2,528)</u>	<u>32,781</u>	<u>-</u>	<u>30,253</u>
NET ASSETS, BEGINNING OF YEAR - AS PREVIOUSLY REPORTED	794,365	70,498	100,000	964,863
Restatement of net assets - beginning of year	<u>58,845</u>	<u>-</u>	<u>-</u>	<u>58,845</u>
NET ASSETS, BEGINNING OF YEAR - AS RESTATED	<u>853,210</u>	<u>70,498</u>	<u>100,000</u>	<u>1,023,708</u>
NET ASSETS, END OF YEAR	<u>\$ 850,682</u>	<u>\$ 103,279</u>	<u>\$ 100,000</u>	<u>\$ 1,053,961</u>

See accompanying Notes to Consolidated Financial Statements.

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013**

	Mentoring Program	Management and General	Fundraising	Total Functional Expenses
FUNCTIONAL EXPENSES				
Salaries and wages	\$ 1,080,270	\$ 66,474	\$ 213,249	\$ 1,359,993
Employee benefits	99,447	8,331	16,980	124,758
Employer taxes	97,101	7,682	17,480	122,263
Professional and contract fees	69,067	102,437	75,634	247,138
Supplies	4,612	6,382	1,004	11,998
Telephone and communications	35,521	3,904	3,232	42,657
Postage and shipping	1,782	1,114	2,805	5,701
Occupancy	132,595	16,431	16,521	165,547
Equipment	6,354	3,008	784	10,146
Maintenance and repair	434	1,285	243	1,962
Printing and publications	1,203	631	6,825	8,659
Travel and mileage	16,560	2,202	2,183	20,945
Conferences and meetings	691	3,570	428	4,689
Program support	6,441	119	961	7,521
Recruitment and public relations	1,670	91	971	2,732
Dues and subscriptions	17,160	1,490	265	18,915
License and fees	7,502	2,857	4,697	15,056
Insurance	11,324	1,421	1,433	14,178
Interest	302	935	48	1,285
Depreciation	23,360	3,253	2,957	29,570
Miscellaneous expense	-	48	-	48
In-kind donations	91,147	-	-	91,147
Bad debts	-	5,000	-	5,000
TOTAL FUNCTIONAL EXPENSES	\$ 1,704,543	\$ 238,665	\$ 368,700	\$ 2,311,908

See accompanying Notes to Consolidated Financial Statements.

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets	\$	30,253
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation		29,570
Bad debts		5,000
Unrealized gain on investments		(36,099)
Gain from sale of property and equipment		(321)
Donated property		(600)
Increase (decrease) in cash resulting from changes in:		
Grants and contributions receivable		(22,967)
Prepaid expenses and other		(518)
Due from an affiliate		(86,784)
Unemployment trust fund		21,975
Accounts payable		20,500
Accrued expenses		(3,577)
Deferred revenues		15,000
		(28,568)
Net cash used in operating activities		(28,568)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of property and equipment		4,920
Purchases of investments		(9,153)
Proceeds from sale of investments		18,128
		13,895
Net cash provided by investing activities		13,895

CASH FLOWS USED IN FINANCING ACTIVITIES

Payments on capital lease obligations		(19,007)
		(19,007)

NET DECREASE IN CASH AND CASH EQUIVALENTS (33,680)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 336,940

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 303,260

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest	\$	1,285
		1,285

See accompanying Notes to Consolidated Financial Statements.

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Big Brothers Big Sisters of Central Arizona (BBBS) was incorporated in the State of Arizona and is a not-for-profit corporation organized to provide guidance to boys and girls through association with appropriate role models. The mission of BBBS is to help children realize their potential through the development of professionally supported one to one relationships with volunteers who care about them. The vision of BBBS is that BBBS contributes to a healthier and stronger community by providing children with mentors who will help them succeed in life. The majority of BBBS revenue is derived from various fundraising activities, grants and contracts with other not-for-profit organizations, corporations, and local governments.

The Foundation for Valley Big Brothers Big Sisters (Foundation) was incorporated in the State of Arizona and is a not-for-profit corporation organized to encourage and solicit gifts solely for the benefit of Big Brothers Big Sisters of Central Arizona. Since BBBS exercises control over the Foundation, its activities are consolidated with BBBS.

BBBS operates under an affiliation agreement with Big Brothers Big Sisters of Central Arizona Association (Association). BBBS and the Association each have a separate Board of Directors. The Association has no legal obligation to fund BBBS, but the intent is that they will work together.

Basis of Consolidation

The consolidated financial statements include both the accounts of BBBS and the Foundation (collectively referred to as the Agency). All of the financial activities and balances of these organizations are included in these consolidated financial statements. All significant inter-company balances and transactions have been eliminated in consolidation.

Basis of Presentation

The Agency's consolidated financial statements have been prepared in accordance with the American Institute of Certified Public Accountants *Audit and Accounting Guide for Not-For-Profit Entities* (Audit Guide). Under the Audit Guide, the Agency is required to report information regarding the financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, or permanently restricted as follows:

Unrestricted Net Assets

Unrestricted net assets include all assets for which there are no donor-imposed restrictions and those for which the restrictions have been met in the same accounting period.

Temporarily Restricted Net Assets

Temporarily restricted net assets include all assets restricted by the donor for a particular purpose or time period.

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Permanently Restricted Net Assets

Permanently restricted net assets include assets restricted by the donor that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Agency. Generally, the donor allows the Agency to use the earnings on permanently restricted net assets for operations.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions

Under the Audit Guide, contributions, grants, and bequests including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions of services are recognized at their fair value if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Cash and Cash Equivalents

The Agency considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the consolidated statement of financial position. Investment income (including interest and dividends) and unrealized gains and losses are reported in the consolidated statement of activities and changes in net assets. Long-term investments represent investments of the Foundation that are not available for operations of BBBS.

Grants and Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included in support until the conditions are substantially met.

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Contributions Receivable (Continued)

Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has made reasonable collection efforts are written off.

Management believes that all grants and contributions receivable at June 30, 2013 are fully collectible.

Property and Equipment

Property and equipment is initially recorded at cost and donated property is recorded at the fair value at the date of the gift. Contributions of nonfinancial assets are initially recorded at fair value and then carried at the lower of carrying value or fair value. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. Depreciation is provided using the straight-line method over estimated useful lives of the acquired and donated assets. The estimated useful lives range from 3-5 years. Repairs and maintenance are expensed as incurred.

When items are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the consolidated statements of activities and changes in net assets.

Impairment of Long-Lived Assets

The Agency reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future undiscounted net cash flows which the assets are expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. There were no such impairments of long-lived assets as of June 30, 2013.

Revenue Recognition

Revenue from exchange type contracts are recognized as the related qualifying expenditures are incurred.

Donated Services

Non-cash in-kind contributions are recorded as both revenue and expense at the estimated fair value in the consolidated financial statements if, among other things, the Agency would typically need to purchase these services if they were not provided by donation.

The Agency receives substantial support in the form of donated volunteer services. The value of these services is not recorded because they do not meet the requirements to be recorded in accordance with not-for-profit accounting principles.

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services (Continued)

Non-cash contributions of advertising, special event auction items and sporting event tickets are recorded at fair value at the time of donation. Items given away by the Agency as part of its program are recorded as an equal expense.

Special Events Revenue

The Agency conducts special events in which a portion of the gross proceeds paid by the participant represents payments for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of entertainment provided at special events is measured at the actual cost to the Agency. The direct costs of the special events which ultimately benefit the donor rather than the Agency are included in special events revenues and then expensed as costs of direct donor benefits.

Functional Expenses Classifications

The cost of providing program services and other activities has been summarized on a functional basis in the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The allocation methods used are based on square footage, full-time equivalents, and other appropriate methods, and are subject to a certain degree of estimation by management.

Income Taxes

BBBS and the Foundation are exempt from Federal and Arizona income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, there is no provision for federal or state corporate income taxes. In addition, BBBS and the Foundation have been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Management believes that the Agency has no uncertain tax positions as of June 30, 2013.

The federal and state tax returns of the Agency for 2010, 2011 and 2012, are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed.

NOTE 2 GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable are stated as the amount management expects to collect. There was no allowance for uncollectible accounts as of June 30, 2013.

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 3 PROPERTY AND EQUIPMENT

At June 30, 2013, property and equipment were as follows:

Equipment	\$	115,893
Vehicles		25,965
Total		141,858
Less accumulated depreciation		(110,850)
Property and equipment, net of accumulated depreciation	\$	31,008

Depreciation charged to operations was \$29,570 for the year ended June 30, 2013.

NOTE 4 INVESTMENTS

At June 30, 2013, investments were as follows:

	Cost	Fair Value
Certificate of deposit	\$ 99,845	\$ 100,000
Mutual funds	314,943	379,561
Total	\$ 414,788	\$ 479,561

The unrealized gains on investments were \$36,098 for the year end June 30, 2013. The certificate of deposit has a term of 12 months and matures in December 2013.

NOTE 5 FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, provides the 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 under FASB ASC 820 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 Agency has the ability to access.

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

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.

Mutual funds: Valued at the net asset value (NAV) of shares held by the Agency at year-end.

The method 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 Agency 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.

The following tables set forth, by level, within the fair value hierarchy, certain assets and liabilities measured at fair value as of June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds - large blend	\$ 379,561	\$ -	\$ -	\$ 379,561

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 6 LEASE AND RENTAL COMMITMENTS

The Agency is committed under various operating leases for office space. Rent expense was approximately \$165,000 during the year ended June 30, 2013. The Association shares space with the Agency and was allocated rent expense of approximately \$55,000 for 2013.

Future minimum rental payments under non-cancelable leases at June 30 are as follows:

2014	\$ 168,376
2015	173,054
2016	12,264
2017	12,264
2018	<u>5,110</u>
Total future minimum lease payments	<u>\$ 371,068</u>

NOTE 7 NOTE PAYABLE TO BANK

The Agency has a \$100,000 line of credit available with interest at the prime rate plus 1.75%, or the floor rate of 5.00%. The line of credit renewed January 14, 2013, expires January 16, 2014, and is secured by the assets of the Foundation. The line of credit was not utilized during 2013, and had no outstanding balance as of June 30, 2013.

NOTE 8 CAPITAL LEASE OBLIGATIONS

Equipment held under capital lease obligations had a cost of \$79,502 at June 30, 2013. Accumulated depreciation associated with this equipment was \$78,177 as of June 30, 2013.

Capital leases obligations are as follows:

Telephone equipment payable in monthly installments of \$1,109, including interest at 16.62%, through July 2013, secured by equipment.	\$ 1,054
Copier equipment payable in monthly installments of \$614, including interest at 2.675%, through July 2013, secured by equipment.	<u>761</u>
Total	1,815
Less current maturities	<u>(1,815)</u>
Long-term maturities of capital lease obligations	<u>\$ -</u>

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 8 CAPITAL LEASE OBLIGATIONS (CONTINUED)

Future minimum payments under these commitments are as follows:

2014	\$ 1,855
2015	<u>-</u>
Total minimum lease payments	1,855
Less amount representing interest	<u>(40)</u>
Present value of minimum lease payments	<u><u>\$ 1,815</u></u>

Interest expense associated with the capital leases totaled \$1,179 during the year ended June 30, 2013.

NOTE 9 SPECIAL EVENTS REVENUE

Special events revenue is comprised of the following for the year ended June 30, 2013:

Bowl for Kids Sake	\$ 90,256
Annual Fund Raising Gala	58,105
Other events	<u>120,809</u>
Total	<u><u>\$ 269,170</u></u>

Other event revenue consists of Paul's Car Wash and various other events held throughout the year.

NOTE 10 IN-KIND CONTRIBUTIONS

The Agency received the following in-kind contributions for the year ended June 30, 2013:

Donated tickets	\$ 90,206
Services	49,026
Donated property and equipment	<u>600</u>
Total	<u><u>\$ 139,832</u></u>

The in-kind contributions are shown as assets, revenues and expenses within the consolidated statement of activities and changes in net assets.

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 11 RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets consist of gifts with purpose restrictions in the amount of \$103,279 as of June 30, 2013.

The net assets released from restrictions during the year ended June 30, 2013 related to time restrictions.

The Agency's endowment consists of funds established to support the general purposes of the Agency. Its endowment consists of donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Agency has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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. Consequently, the Agency classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment, and
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency's Board. In accordance with SPMIFA, the Agency considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Agency and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Agency
7. The investment policies of the Agency

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 11 RESTRICTIONS ON NET ASSETS (CONTINUED)

Return Objectives and Risk Parameters

The Agency has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by the endowments. The endowment assets are invested in a manner that is intended to produce results similar to the S&P 500 Index while assuming a moderate level of investment risk.

Endowment net asset composition by type of fund as of June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 18,281	\$ -	\$ 100,000	\$ 118,281

Changes in endowment net assets for the fiscal year ended June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 18,129	\$ -	\$ 100,000	\$ 118,129
Interest income	152	-	-	152
Endowment net assets, end of year	<u>\$ 18,281</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 118,281</u>

NOTE 12 RELATED PARTY TRANSACTIONS

The Agency recorded the following transactions with related parties for the year ended June 30, 2013:

Support from the Association	\$ 768,372
Salaries and benefits	40,163
Other	1,886
Total	810,421
Payments from affiliate	(649,457)
Due from an affiliate	<u>\$ 160,964</u>

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 13 MAJOR REVENUE SOURCES

Revenue derived from the Association represented approximately 32.9% of total public support, revenue and special events during the year ended June 30, 2013.

Contributions from Valley of the Sun United Way represented approximately 16.6% of total public support, revenue, and special events during the year ended June 30, 2013.

NOTE 14 RETIREMENT PLAN

The Agency maintains a defined contribution retirement plan (the Plan) for its employees established under Internal Revenue Code Section 403(b). The Plan covers essentially all full-time employees who are 21 years of age or older, and have worked a minimum of one year of service exclusive of those employees who have elected not to participate. The Agency makes contributions to the Plan equal to the lesser of 1) 50% of the employee's contributions or 2) 2% of the employee's compensation. The Agency contributions to the Plan approximated \$12,011 for the year ended June 30, 2013.

NOTE 15 CONTINGENCIES

The Agency is from time to time a party to litigation/claims arising in the normal course of operations. Potential and actual claims and legal proceedings are evaluated by management on an ongoing basis. If management believes that a loss is probable and can reasonably be estimated, the amount of the estimated loss is recorded. In the opinion of management, the effect of such matters will not have a material adverse effect on the Agency's financial position, operations, or liquidity. Therefore, no provision has been made in the accompanying consolidated financial statements for losses, if any, that might result from the ultimate outcome of these matters.

The Agency participates in a number of federal and state-assisted grant and contract programs which are subject to financial and compliance audits. Accordingly, the Agency's compliance with applicable grant or contract requirements may be determined at some future date. The amount, if any, of expenditures or fees for units of service which may be disallowed by the granting or contracting agencies cannot be determined at this time, although the Agency's management expects such amounts, if any, to be immaterial.

NOTE 16 CONCENTRATION OF CREDIT RISKS

Financial instruments that potentially subject the Agency to concentration of credit risk consist principally of cash and cash equivalents. Cash is placed with high quality financial institutions; however, at times these cash balances exceed the FDIC insurance limit. Investments in mutual funds are not insured by the FDIC.

**BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 17 SUBSEQUENT EVENTS

The Agency and the Association are pursuing a revised structure where the two entities will merge during fiscal 2014.

Management evaluated subsequent events through November 26, 2013, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2013, but prior to November 26, 2013, that provided additional evidence about conditions that existed at June 30, 2013, have been recognized in the consolidated financial statements for the year ended June 30, 2013. Events or transactions that provided evidence about conditions that did not exist at June 30, 2013, but arose before the consolidated financial statements were available to be issued have not been recognized in the consolidated financial statements for the year ended June 30, 2013.

NOTE 18 PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2013, an error resulting in an unrecorded asset for an unemployment trust fund as of June 30, 2012, was discovered by management of the Agency. This adjustment increased unrestricted net assets as of June 30, 2012 by \$58,845. Accordingly, amounts reported for the unemployment trust fund and unrestricted net assets have been restated as of June 30, 2012, to correct the error.