



**Boys and Girls Clubs of Tucson, Inc.**  
**Single Audit Reporting Package**  
For the Year Ended December 31, 2022  
(With Comparative Totals for the Year Ended December 31, 2021)

Boys and Girls Clubs of Tucson, Inc.

Single Audit Reporting Package  
Year Ended December 31, 2022  
(With Comparative Totals for the  
Year Ended December 31, 2021)

**Boys And Girls Clubs of Tucson, Inc.**  
**Year Ended December 31, 2022**

**Table of Contents**

Independent Auditor’s Report	1
<b><u>Financial Statements</u></b>	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8
<b><u>Single Audit Section</u></b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	25
Schedule of Expenditures of Federal Awards	29
Notes to the Schedule of Expenditures of Federal Awards	30
Schedule of Findings and Questioned Costs	31
<b><u>Auditee Response</u></b>	
Cover Letter	45
Corrective Action Plan	46

## Independent Auditor's Report

The Board of Directors  
Boys and Girls Clubs of Tucson, Inc.

### **Report on Audit of Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Boys and Girls Clubs of Tucson, Inc. (Club), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys and Girls Clubs of Tucson, Inc. as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with 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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Boys and Girls Clubs of Tucson, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Club's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Club's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Club's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Report on Summarized Comparative Information***

The financial statements of Boys and Girls Clubs of Tucson, Inc. as of December 31, 2021 were audited by other auditors whose report dated June 29, 2022, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2023, on our consideration of Boys and Girls Clubs of Tucson, 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 the Club'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 the Club's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.  
Tucson, Arizona  
November 7, 2023

**Boys and Girls Clubs of Tucson, Inc.**  
**Statement of Financial Position**  
**December 31, 2022**  
**(With Comparative Totals for December 31, 2021)**

<u><b>Assets</b></u>	2022	2021
Current assets:		
Cash and cash equivalents	\$ 6,291,282	\$ 3,720,277
Investments, current	4,836,266	3,338,124
Accounts receivable, net	128,092	170,897
Pledges receivable, net	161,960	150,000
Grants receivable	188,558	684,572
Prepaid expenses	57,863	78,202
Total current assets	11,664,021	8,142,072
Noncurrent assets:		
Pledges receivable, net	149,938	281,448
Investments	48,882	258,996
Property and equipment, net	2,999,043	2,967,337
Total noncurrent assets	3,197,863	3,507,781
 Total assets	\$ 14,861,884	\$ 11,649,853
 <u><b>Liabilities</b></u>		
Current liabilities:		
Accounts payable	\$ 85,197	\$ 257,752
Accrued payroll and benefits	219,716	149,492
Refundable advances	100,491	94,841
Deferred grant obligation		35,000
Total current liabilities	405,404	537,085
 Total liabilities	405,404	537,085
 <u><b>Net assets</b></u>		
Without donor restrictions:		
Undesignated	1,689,254	1,453,331
Designated by the Board	7,207,641	3,979,384
Invested in property and equipment, net	2,999,043	2,932,337
Total net assets without donor restrictions	11,895,938	8,365,052
With donor restrictions:		
Time restricted	311,898	450,000
Purpose restricted	1,264,694	1,363,766
Perpetual in nature	983,950	933,950
Total net assets with donor restrictions	2,560,542	2,747,716
Total net assets	14,456,480	11,112,768
 Total liabilities and net assets	\$ 14,861,884	\$ 11,649,853

**See accompanying notes to financial statements.**

**Boys and Girls Clubs of Tucson, Inc.**  
**Statement of Activities**  
**For the Year Ended December 31, 2022**  
**(With Comparative Totals for the Year Ended December 31, 2021)**

			Totals	
	Without Donor Restrictions	With Donor Restrictions	2022	2021
<b>Revenue, support, and gains:</b>				
Contributions	\$ 4,046,471	\$ 1,527,088	\$ 5,573,559	\$ 3,458,620
Contributions - in kind	386,938		386,938	1,043,212
United Way contributions	46,626		46,626	55,410
Special events (net of direct donor benefits of \$18,954)	1,287,573		1,287,573	899,596
Grants	1,335,947		1,335,947	1,028,614
PPP loan forgiveness				378,285
Partnerships	75,000		75,000	76,540
Program service fees	14,853		14,853	24,139
Other income	7,427		7,427	17,670
Investment return, net	(440,151)	(161,766)	(601,917)	376,267
Net assets released from restrictions	1,552,496	(1,552,496)		
Total revenue, support, and gains	<u>8,313,180</u>	<u>(187,174)</u>	<u>8,126,006</u>	<u>7,358,353</u>
 <b>Expenses and losses:</b>				
Program services	<u>3,518,823</u>	<u></u>	<u>3,518,823</u>	<u>3,591,316</u>
Total program expenses	<u>3,518,823</u>	<u></u>	<u>3,518,823</u>	<u>3,591,316</u>
 Supporting services				
Management and general	505,886		505,886	320,509
Fundraising	757,585		757,585	496,554
Total supporting services	<u>1,263,471</u>	<u></u>	<u>1,263,471</u>	<u>817,063</u>
Total expenses and losses	4,782,294		4,782,294	4,408,379
<b>Change in net assets</b>	3,530,886	(187,174)	3,343,712	2,949,974
<b>Net assets, beginning of year</b>	<u>8,365,052</u>	<u>2,747,716</u>	<u>11,112,768</u>	<u>8,162,794</u>
<b>Net assets, end of year</b>	<u>\$ 11,895,938</u>	<u>\$ 2,560,542</u>	<u>\$ 14,456,480</u>	<u>\$ 11,112,768</u>

See accompanying notes to financial statements.



**Boys and Girls Clubs of Tucson, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2022**  
**(With Comparative Totals for the Year Ended December 31, 2021)**

	Supporting Services			Totals	
	Program Services	Management and General	Fundraising	2022	2021
Salaries and wages	\$ 1,782,199	\$ 296,663	\$ 206,245	\$ 2,285,107	\$ 1,929,508
Employee benefits	235,820	36,274	27,467	299,561	250,748
Advertising			248,708	248,708	789,925
Supplies	429,731	24,336	120,925	574,992	387,719
Food and beverages	68,821	24	58,553	127,398	
Professional services	172,678	56,081	64,435	293,194	247,657
Repairs and maintenance	192,789	25,429	1,125	219,343	183,063
Utilities	61,572	940		62,512	59,272
Insurance	49,149	7,251	5,402	61,802	52,377
Telephone	36,837	5,323	4,162	46,322	46,114
Scholarships, awards, and grants	12,160			12,160	42,808
Conferences and meetings	23,739	30,483	8,444	62,666	30,247
National and membership dues	30,908	2,864	3,228	37,000	22,182
Miscellaneous expenses	1,318	1,695	8,810	11,823	20,851
Transportation	67,669	4,951	4,162	76,782	18,275
Printing and publication	5,467	1,144	13,305	19,916	12,372
Postage and shipping	274	1,675	1,559	3,508	2,496
Depreciation	347,692	10,753		358,445	312,765
Total functional expenses	3,518,823	505,886	776,530	4,801,239	4,408,379
Less: direct donor benefit costs netted against special event revenues			(18,945)	(18,945)	
Total functional expenses reported on Statement of Activities	\$ 3,518,823	\$ 505,886	\$ 757,585	\$ 4,782,294	\$ 4,408,379

See accompanying notes to financial statements.

**Boys and Girls Clubs of Tucson, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2022**  
**(With Comparative Totals for the Year Ended December 31, 2021)**

	2022	2021
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 3,343,712	\$ 2,949,974
Adjustments to reconcile change in net assets to net cash provided by/used for operating activities:		
Depreciation	358,445	312,765
Change in allowance for net present value, pledges receivable	(8,490)	(15,885)
Net (gain)/loss on investments	668,576	(233,819)
Contributions restricted for capital purposes	(954,900)	(297,927)
Changes in assets and liabilities:		
Accounts receivable	42,805	(135,759)
Pledges receivable	128,040	152,220
Grants receivable	496,014	(514,594)
Prepaid expenses	20,339	(15,896)
Accounts payable	(172,555)	178,283
Accrued payroll	70,224	(26,597)
Refundable advance	5,650	55,462
Deferred grant obligation	(35,000)	(35,000)
<b>Net cash provided by/used for operating activities</b>	<b>3,962,860</b>	<b>2,373,227</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	214,134	867,931
Purchases of investments	(2,263,672)	(706,518)
Interest and dividends on investments	92,934	
Purchases of property and equipment	(390,151)	(364,135)
<b>Net cash provided by/used for investing activities</b>	<b>(2,346,755)</b>	<b>(202,722)</b>
<b>Cash flows from financing activities:</b>		
Contributions restricted for capital purposes	954,900	297,927
<b>Net cash provided by/used for financing activities</b>	<b>954,900</b>	<b>297,927</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>2,571,005</b>	<b>2,468,432</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>3,720,277</b>	<b>1,251,845</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,291,282</b>	<b>\$ 3,720,277</b>
<b>Supplemental disclosure of cash flow information</b>		
Scheduled release of deferred grant obligation	\$ 35,000	\$ 35,000

See accompanying notes to financial statements.

**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 1 – Summary of Significant Accounting Policies**

**Nature of Activities**

Boys and Girls Clubs of Tucson, Inc. (Club) is a nonprofit corporation organized under the laws of the State of Arizona. The Club has been serving Tucson children since 1964. Its purpose is to provide young people in Tucson, especially those who need them most, with a clear path to reach their full potential and pursue their dreams.

**Basis of Accounting**

The financial statements of the Club have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

**Basis of Presentation**

The financial statements of the Club have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to not-for-profit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing not-for-profit accounting and financial reporting principles. The Club is required to report information regarding its financial position and activities according to two classes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Club and changes therein are classified as follows:

*Net assets without donor restrictions* – Net assets that are not subject to donor-imposed stipulations. The Board of Directors has designated, from net assets without donor restrictions, net assets for reserves and the board designated endowment.

*Net assets with donor restrictions* – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of the Club and/or the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds must be maintained in perpetuity.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

**Use of Estimates**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 1 – Summary of Significant Accounting Policies**

**Comparative Financial Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Club's financial statements for the year ended December 31, 2021, from which the summarized information was derived.

**Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the Club considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**Investments**

The Club reports investments at fair value. Net investment income return is reported in the Statement of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment expense. Net investment income restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

**Concentrations of Credit and Market Risk**

Financial instruments that potentially expose the Club to concentrations of credit and market risk consist primarily of cash equivalents and investments. The Club maintains its cash and cash equivalents in bank deposit accounts, which, for short periods of time, may exceed federally insured limits. At year end, the carrying amount of the Club's deposits was \$6,291,282 and the bank balance was 6,349,478. At year end, \$4,949,035 of the Club's deposits were uninsured and uncollateralized. To minimize risk, cash accounts are maintained at high-quality financial institutions and credit exposure is limited to any one institution. The Club's investments do not represent significant concentrations of market risk inasmuch as the Club's investment portfolio is adequately diversified among issuers.

**Revenue Recognition**

**Contributions.** The Club 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. The Club did not have any conditional promises to give at year end.

**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 1 – Summary of Significant Accounting Policies**

**Grants.** The Club conducts several programs that are funded by local, state, and federal grants. The vast majority of the grants are considered cost-reimbursable federal and state grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Club has incurred expenses in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenses are reported as refundable advances in the statement of financial position. At year end, the Club received cost-reimbursable grants of \$56,557 included in the refundable advances account because qualifying expenses have not yet been incurred.

The Club also receives grant revenue from a tribal entity for mutually agreed upon services at a clubhouse. The grant is awarded based on annual approved budgets. The grantor is billed quarterly and revenue is recognized when billed.

**Special events.** The Club records special events revenue, net of the fair value of direct benefits to donors received, when the event takes place.

**Pledges Receivable**

Unconditional promises to give that are expected to be collected in less than one year are reported at net realizable value. Unconditional promises to give that are expected to be collected in periods greater than one year are recorded at net present value of expected cash flows. Management does not believe an allowance for uncollectible amounts is necessary based on historical experience with donors, and accordingly has made no allowance for doubtful accounts.

**Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. 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 used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At year end, the valuation allowance for accounts receivable was \$20,000.

**Property and Equipment**

All acquisitions of property and equipment with a cost in excess of \$1,000 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 3 to 39 years. Depreciation expense for the current fiscal year was \$358,445.

**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 1 – Summary of Significant Accounting Policies**

The Club reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. 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. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

**Compensated Absences**

Employees are entitled to personal time off (PTO), depending on job classification, length of service, and other factors. It is the Club's policy to recognize the cost of compensated absence when leave is earned by employees.

**In-Kind Contributions**

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Club reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Club reclassifies net assets with donor restrictions to net assets without restrictions at that time.

Volunteers may contribute time to the Club's program services, administration, and fundraising activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed in generally accepted accounting principles.

**Functional Allocation of Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 1 – Summary of Significant Accounting Policies**

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and wages	Time and effort
Employee benefits	Time and effort
Advertising	Time and effort
Professional services	Time and effort
Depreciation	Historic time study

**Advertising**

The Club uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the current fiscal year, advertising costs totaled \$248,708.

**Income Tax Status**

The Club is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar State of Arizona tax provisions. In addition, the Club 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)(2). The Club's Form 990, *Return of Organization Exempt from Income Taxes*, is generally subject to examination by the Internal Revenue Service for three years after the date filed.

Management has evaluated the tax positions taken or expected to be taken, if any, on its exempt organization filings, and the likelihood that upon examination those positions would be sustained. Based on the results of this evaluation, management believes there are no uncertain tax positions.

**Reclassifications**

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**New Accounting Pronouncements**

During the fiscal year, the Club adopted Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). The update increases transparency of contributed nonfinancial assets through enhancements to presentation and disclosures. The adoption did not have a significant impact on the Club's financial statements.

**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 1 – Summary of Significant Accounting Policies**

During the fiscal year, the Club adopted Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). This update requires entities to recognize assets and liabilities for both capital and operating leases on the statement of financial position, and disclose key information about leasing arrangements. In adopting Topic 842, the Club elects the practical expedient transition package to not reassess (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. It also elects not to report assets or liabilities for leases with terms of one year or less. The implementation of this standard did not have a significant effect on the financial statements.

**Date of Management’s Review**

In preparing these financial statements, the Club has evaluated events and transactions for potential recognition or disclosure through November 7, 2023, which is the date the financial statements were available to be issued.

**Note 2 – Liquidity and Availability**

The following represents the Club’s financial assets at fiscal year end:

Financial assets at year end:	
Cash and cash equivalents	\$ 6,291,282
Accounts receivable	128,092
Pledges receivable, net	161,960
Grants receivable	188,558
Investments, current	4,836,266
Total financial assets	<u>11,606,158</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	2,560,542
Less: Net assets with time restrictions to be met in less than a year	(161,960)
Board designated net assets	<u>7,207,641</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,999,935</u>

The Club regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Club’s goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in interest-bearing savings accounts. The Club has a Board-designated reserve and quasi-endowment. The quasi-endowment has a spending rate of four percent. Although the Club does not intend to spend from its Board-designated reserve or quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from the Board-designated reserve or quasi-endowment could be made available if necessary. In addition, the Club has \$48,882 in non-current investments at year end that could be liquidated.



**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 3 – Investments and Fair Value Measurements**

Fair value is defined as the price that the Club would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

Accounting standards establish a three-tier fair value hierarchy that prioritizes the inputs to valuation techniques. Inputs refer broadly to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Observable inputs are those that reflect the assumptions that market participants would use in pricing the asset and are based on market data obtained from independent sources. Unobservable inputs reflect the Club’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1: Quoted prices in active markets for identical investments.

Level 2: 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.

Level 3: Unobservable inputs for the asset or liability.

The level of fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair Values Measured on Recurring Basis

Fair values of assets measured on a recurring basis at year end are as follows:

	Hierarchy Level	Fair Value
Investments		
Certificates of deposit	Level 1	\$ 2,001,580
Stocks	Level 1	551,921
Mutual funds and exchange-traded funds	Level 1	1,370,368
Corporate bonds	Level 1	98,263
Fixed income and bond funds	Level 1	863,016
Total assets		<u>\$ 4,885,148</u>

**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 3 – Investments and Fair Value Measurements**

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value.

*Investments* – Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

**Note 4 – Pledges Receivable**

Pledges receivable consist of the following:

Pledges receivable before unamortized discount	\$ 321,960
Less: Unamortized discount	<u>(10,062)</u>
Net pledges receivable	<u>\$ 311,898</u>
Amounts due in:	
Less than one year	\$ 161,960
One to five years	<u>160,000</u>
Total	<u>\$ 321,960</u>

The discount rate used to determine the present value of pledges receivable is commensurate with the risks involved and was 3.25 percent.

**Note 5 – Property and Equipment**

Property and equipment consist of the following.

Buildings and improvements	\$ 9,331,387
Equipment	1,760,622
Statues	11,408
Vehicles	<u>258,387</u>
Total property and equipment	11,361,804
Less: Accumulated depreciation	<u>(8,362,761)</u>
Net property and equipment	<u>\$ 2,999,043</u>

Three of the Club's recreational facilities, the Roy Drachman, Holmes Tuttle, and Steve Daru Clubhouses, are subject to cooperative maintenance agreements with the City of Tucson, Arizona. The agreements provide for the Club to construct, own, and operate recreational centers within the City of Tucson's parks. Legal title to the Roy Drachman, Holmes Tuttle, and Steve Daru Clubhouses remain in the name of the Club through September 9, 2025, with each agreement containing an option to renew, by mutual consent, for up to two additional 10-year periods. Upon termination of the agreements, title to the recreational facilities will revert to the City of Tucson, Arizona.

**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 5 – Property and Equipment**

Two of the Club's recreational facilities, the Frank and Edith Morton and the Jim and Vicki Click Clubhouses, are subject to cooperative maintenance agreements with Tucson Unified School District (TUSD). The agreements provide for the Club to construct, own, and operate recreational centers at TUSD school sites. Legal title to the Frank and Edith Morton and the Jim and Vicki Click Clubhouses remains in the name of the Club through June 26, 2027 and October 31, 2031, respectively. Each agreement provides a renewal option for additional five-year successive terms by mutual agreement. Upon termination of the agreements, title to the recreational facilities will revert to TUSD.

**Note 6 – Endowments**

The Club's endowment (the Endowment) consists of individual funds established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Directors. As required by generally accepted accounting principles (GAAP), 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 Club is subject to the State of Arizona's Uniform Prudent Management of Institutional Funds Act (UPMIFA) (the Act) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Directors appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Directors of the Club has interpreted the Act as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary.

As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Club considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulation to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Club has interpreted the Act to permit spending from underwater funds in accordance with the prudent measures required under the law.

**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 6 – Endowments**

In accordance with UPMIFA, the Club considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purpose of the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the organization
- g. The investment policies of the organization

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). Deficiencies of this nature exist in three donor-restricted endowment funds, which together have an original gift value of \$748,000, a current fair value of \$634,079, and a deficiency of \$113,921 as of December 31, 2022. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Endowment Net Asset Composition by Type of Fund as of year end:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$	\$	\$
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor		983,950	983,950
Accumulated investment gains/losses		(97,353)	(97,353)
Board-designated endowment funds	2,205,903		2,205,903
Total funds	<u>\$ 2,205,903</u>	<u>\$ 886,597</u>	<u>\$ 3,092,500</u>

**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 6 – Endowments**

**Investment Return Objectives, Risk Parameters and Strategies**

The Club has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of four percent, while growing the funds if possible. Therefore, the Club expects its endowment assets, over time, to produce an average rate of return of approximately four percent above inflation annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

**Spending Policy**

The Club has a policy of appropriating for distribution each year four percent of its endowment fund's average fair value of the prior three years preceding the fiscal year in which the distribution is planned. In establishing this policy, the Club considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Club expects the current spending policy to allow its endowment funds to grow at a nominal average rate of four percent above inflation annually. This is consistent with the Club's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Changes in Endowment Net Assets as of year end:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 2,598,395	\$ 1,012,363	\$3,610,758
Contributions	174,381	50,000	224,381
Investment return, net	(427,662)	(161,766)	(589,428)
Amounts appropriated for expenditure	(139,211)	(14,000)	(153,211)
Endowment net assets, end of year	<u>\$ 2,205,903</u>	<u>\$ 886,597</u>	<u>\$3,092,500</u>

**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 7 – Net Assets**

Net assets without donor restrictions are as follows:

Undesignated	\$ 1,689,254
Designated by the Board	
Quasi-endowment	2,205,903
Cash reserve	631,461
Facilities reserve	1,854,094
Investment reserve	2,516,183
Invested in property and equipment, net	2,999,043
Total	<u>\$ 11,895,938</u>

Net assets with donor restrictions activity and balances were as follows:

	Beginning Balance	Contributions	Investment return, net	Releases	Ending Balance
Specific Purpose					
Clubhouse operations	\$ 666,406	\$	\$	\$ 665,112	\$ 1,294
Education and mental health	217,586	23,000		140,610	99,976
Computer lab programs	113,249	74,000		114,220	73,029
Capital improvements for clubhouses	80,274	954,900		199,100	836,074
Scholarships and Keystone programs	62,862	28,238		19,897	71,203
Arts, crafts and music programs	26,639	20,167		13,895	32,911
Graduate for MAS	24,150	53,280		47,228	30,202
Miscellaneous programs	22,269	145,240		60,389	107,120
Sports equipment and activities	22,162	25,200		27,363	19,999
Money matters	21,408	10,500		15,325	16,583
Power hour	14,323	82,090		49,397	47,016
Training teen drivers	8,025	7,500		4,959	10,566
STEM	6,000	20,000		9,926	16,074
Holiday funding		16,075		16,075	
Endowments					
Subject to appropriation	78,413		(161,766)	14,000	(97,353)
	<u>1,363,766</u>	<u>1,460,190</u>	<u>(161,766)</u>	<u>1,397,496</u>	<u>1,264,694</u>
Passage of Time					
Operations	450,000	16,898		155,000	311,898
	<u>450,000</u>	<u>16,898</u>		<u>155,000</u>	<u>311,898</u>
Perpetual in nature					
Investment in youth	500,000				500,000
Memberships	198,000				198,000
Youth of the Year scholarships	160,950				160,950
Scholarships	50,000				50,000
Fund for Excellence		50,000			50,000
Youth of the Year competition expenses	25,000				25,000
	<u>933,950</u>	<u>50,000</u>			<u>983,950</u>
Total	<u>\$ 2,747,716</u>	<u>\$ 1,527,088</u>	<u>\$ (161,766)</u>	<u>\$ 1,552,496</u>	<u>\$ 2,560,542</u>

**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 8 – Contributed Nonfinancial Assets**

The Club received the following contributions of nonfinancial assets during the fiscal year, which were utilized for the program or supporting service indicated:

	Program Services	Supporting Services		Total
		Management & General	Fundraising	
Advertising	\$	\$	\$ 248,708	\$ 248,708
Professional services	30,110			30,110
Food and beverages	68,821		52,213	121,034
Supplies	29,731	5,588	17,050	52,369
Conferences & meetings		2,604	1,467	4,071
Donated auction/raffle items			270,825	270,825
	<u>128,662</u>	<u>8,192</u>	<u>590,263</u>	<u>727,117</u>
In-kind contributions included in net special events			<u>(340,179)</u>	<u>(340,179)</u>
In-kind contributions	<u>\$ 128,662</u>	<u>\$ 8,192</u>	<u>\$ 250,084</u>	<u>\$ 386,938</u>

Contributed nonfinancial assets received by the Club are recorded as in-kind contribution revenue with a corresponding in-kind expense. Contributed nonfinancial assets are valued at retail prices that would be received for similar products. There were no donor imposed restrictions associated with the donated goods.

**Note 9 – Special Events**

The Club's special event activities for the fiscal year end were:

	Revenues	Direct	Net
		Benefits to Donors	
Lute & Kelly Olson Party with a Purpose, including in-kind donations of \$268,239	\$ 1,017,154	\$ 1,400	\$ 1,015,754
Steak & Burger - Youth of the Year, including in-kind donations of \$71,800	235,360	11,425	223,935
Swing for the Kids, including in-kind donations of \$140	54,004	6,120	47,884
Total	<u>\$ 1,306,518</u>	<u>\$ 18,945</u>	<u>\$ 1,287,573</u>

**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 10 – Employee Benefit Plans**

The Club has a defined contribution plan that qualifies under Section 401(k) of the Internal Revenue Code. The participants may make limited salary deferral contributions. Matching contributions shall be determined each payroll period. The Club's matching contribution equals 25 percent on the first 8 percent of the participant's compensation which is deferred as an elective deferral. The plan covers employees of the Club with at least three months of service who are at least 21 years of age. Participants are immediately vested in their salary deferral contributions and become 100 percent vested in employer contributions after six years of participation in the plan. Plan expenses were \$37,972 for the fiscal year.

**Note 11 – Commitments and Contingencies**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures/expenses that may be disallowed by the grantor cannot be determined at this time, although the Club expects such amounts, if any, to be immaterial.



**Single Audit Section**

**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***

Independent Auditor's Report

Board of Directors  
Boys and Girls Clubs of Tucson, Inc.

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 Boys and Girls Clubs of Tucson, Inc., which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Boys and Girls Clubs of Tucson, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 Boys and Girls Clubs of Tucson, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Boys and Girls Clubs of Tucson, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items FS-2022-001, FS-2022-002, FS-2022-003, and FS-2022-004 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item FS-2022-005 to be a significant deficiency.

#### Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Boys and Girls Clubs of Tucson, 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 financial statements. 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*.

#### Boys and Girls Clubs of Tucson, Inc.'s Response to Findings

*Government Auditing Standards* requires the auditor to perform limited procedures on the Boys and Girls Clubs of Tucson, Inc.'s responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Boys and Girls Clubs of Tucson, Inc.'s responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

#### 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.  
Tucson, Arizona  
November 7, 2023

**Report on Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance; and  
Report on Schedule of Expenditures of Federal Awards  
Required by the Uniform Guidance**

Independent Auditor's Report

Board of Directors  
Boys and Girls Clubs of Tucson, Inc.

**Report on Compliance for Each Major Federal Program**

**Qualified and Unmodified Opinions**

We have audited Boys and Girls Clubs of Tucson, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Boys and Girls Clubs of Tucson, Inc.'s major federal programs for the year ended December 31, 2022. Boys and Girls Clubs of Tucson, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Qualified Opinion on Coronavirus State and Local Fiscal Recovery Funds*

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, Boys and Girls Clubs of Tucson, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Coronavirus State and Local Fiscal Recovery Funds for the year ended December 31, 2022.

**Basis for Qualified and Unmodified Opinions**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Boys and Girls Clubs of Tucson, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Boys and Girls Clubs of Tucson, Inc.'s compliance with the compliance requirements referred to above.

***Matter Giving Rise to Qualified Opinion on Coronavirus State and Local Fiscal Recovery Funds***

As described in the accompanying schedule of findings and questioned costs, Boys and Girls Clubs of Tucson, Inc. did not comply with requirement regarding Assistance Listing No. 21.027 Coronavirus State and Local Fiscal Recovery Funds as described in finding number 2022-001 for procurement and suspension and debarment. Compliance with such requirements is necessary, in our opinion, for Boys and Girls Clubs of Tucson, Inc. to comply with the requirements applicable to that program.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Boys and Girls Clubs of Tucson, Inc.'s federal programs.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error and express an opinion on Boys and Girls Clubs of Tucson, Inc.'s compliance based on our audit.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate it would influence the judgment made by a reasonable user of the report on compliance about Boys and Girls Clubs of Tucson, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Boys and Girls Clubs of Tucson, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Boys and Girls Clubs of Tucson, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Boys and Girls Clubs of Tucson, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on Boys and Girls Clubs of Tucson, Inc.'s responses to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Boys and Girls Clubs of Tucson, Inc.'s responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## **Report on Internal Control Over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance, that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on Boys and Girls Clubs of Tucson, Inc.'s responses to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Boys and Girls Clubs of Tucson, Inc.'s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the Boys and Girls Clubs of Tucson, Inc. as of and for the year ended December 31, 2022, and have issued our report thereon dated November 7, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Heinfeld Meech & Co. PC*

Heinfeld, Meech & Co., P.C.  
Tucson, Arizona  
November 7, 2023

**Boys and Girls Clubs of Tucson, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**Fiscal Period 1/1/2022 - 12/31/2022**

<i>Federal Awarding Agency/Program Title</i>	<i>Federal CFDA Number</i>	<i>Additional Award Identification (Optional)</i>	<i>Name of Funder Pass-Through Entity</i>	<i>Identifying Number Assigned By Funder Pass-Through Entity</i>	<i>Federal Expenditures</i>	<i>Federal Program Total</i>	<i>Cluster Name</i>	<i>Cluster Total</i>
<b>DEPARTMENT OF JUSTICE</b>								
JUVENILE MENTORING PROGRAM	16.726		BOYS AND GIRLS CLUB OF AMERICA	OJJDP-2021-49773	\$16,057	\$64,779	N/A	\$0
JUVENILE MENTORING PROGRAM	16.726		BOYS AND GIRLS CLUB OF AMERICA	OJJDP-2021-49774	\$8,000	\$64,779	N/A	\$0
JUVENILE MENTORING PROGRAM	16.726		BOYS AND GIRLS CLUB OF AMERICA	OJJDP-2021-49775	\$9,708	\$64,779	N/A	\$0
JUVENILE MENTORING PROGRAM	16.726		BOYS AND GIRLS CLUB OF AMERICA	OJJDP-2021-49776	\$14,014	\$64,779	N/A	\$0
JUVENILE MENTORING PROGRAM	16.726		BOYS AND GIRLS CLUB OF AMERICA	OJJDP-2021-49777	\$8,000	\$64,779	N/A	\$0
JUVENILE MENTORING PROGRAM	16.726		BOYS AND GIRLS CLUB OF AMERICA	OJJDP-2021-49778	\$9,000	\$64,779	N/A	\$0
<b>TOTAL DEPARTMENT OF JUSTICE</b>					<u>\$64,779</u>			
<b>DEPARTMENT OF TREASURY</b>								
COVID-19 CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027	COVID-19	ARIZONA ALLIANCE OF BOYS AND GIRLS CLUBS	ISA-ARPA-AZABGC-042022-47	\$717,723	\$755,872	N/A	\$0
COVID-19 CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027	COVID-19	ARIZONA ALLIANCE OF BOYS AND GIRLS CLUBS	GR-GEER-AZABGC-040122-01	\$38,149	\$755,872	N/A	\$0
<b>TOTAL DEPARTMENT OF TREASURY</b>					<u>\$755,872</u>			
<b>DEPARTMENT OF EDUCATION</b>								
COVID-19 EDUCATION STABILIZATION FUND	84.425	COVID-19	ARIZONA ALLIANCE OF BOYS AND GIRLS CLUBS	GR-GEER-BGCV-010122-01	\$6,346	\$6,346	N/A	\$0
<b>TOTAL DEPARTMENT OF EDUCATION</b>					<u>\$6,346</u>			
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>								
DEMONSTRATION PROJECTS FOR INDIAN HEALTH	93.933		NATIONAL CONGRESS OF AMERICAN INDIANS	NCAI-21-038-TC-AZ	\$25,205	\$25,205	N/A	\$0
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>					<u>\$25,205</u>			
<b>TOTAL EXPENDITURE OF FEDERAL AWARDS</b>					<u><u>\$852,202</u></u>			

Please Note:  
*Italicized award lines indicate pass-through funding*

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of the schedule.



**Boys and Girls Clubs of Tucson, Inc.**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Fiscal Period 1/1/2022 - 12/31/2022**

**Significant Accounting Policies Used in Preparing the SEFA**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Boys and Girls Clubs of Tucson, Inc. (Club) under programs of the federal government for the year ended December 31, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Club, it is not intended to and does not present the financial position, changes in net position or cash flows of the Club. Expenditures reported on the Schedule are reported on the full accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Any negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

**10% De Minimis Cost Rate**

The auditee did not use the de minimis cost rate.

**Assistance Listing Numbers**

The program titles and Assistance Listing numbers were obtained from the federal or pass-through grantor or through sam.gov. If the three-digit Assistance Listing extension is unknown, there is a U followed by a two-digit number in the Assistance Listing extension to identify one or more Federal award lines from that program. The first Federal program with an unknown three-digit extension is indicated with U01 for all award lines associated with that program, the second is U02, etc.

**Boys and Girls Clubs of Tucson, Inc.**  
**Schedule of Findings And Questioned Costs**  
**Year Ended December 31, 2022**

**Summary of Auditor's Results:**

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Significant deficiency(ies) identified: Yes
- Material weakness(es) identified: Yes

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

- Significant deficiency(ies) identified: Yes
- Material weakness(es) identified: Yes

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with §200.516 of Uniform Guidance: Yes

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee: No

**Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*: Yes**

**Findings and Questioned Costs Related to Federal Awards: Yes**

**Summary Schedule of Prior Audit Findings required to be reported: No**

**Boys and Girls Clubs of Tucson, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2022**

**Findings Related to Financial Statements Reported in Accordance with  
Government Auditing Standards**

**Finding Number:** FS-2022-001

**Repeat Finding:** No

**Type of Finding:** Material Weakness

**Description:** Internal Controls Over Cash Reconciliations

Criteria

In accordance with generally accepted accounting principles (GAAP), management is responsible for establishing and maintaining internal controls over cash accounts and related activity. As such, the Club's records of cash balances must be reconciled to the bank statements on a timely basis to ensure the financial activity of the Club is accurate and complete.

Condition

The Club did not have adequate internal controls over cash balances. Monthly cash reconciliations were not performed for all bank accounts each month, and it could not be determined if reconciliations were consistently reviewed by another individual.

Cause

The Club did not have adequate policies and procedures over cash reconciliations.

Effect

The Club may not be able to effectively manage its finances and is at risk of undetected misstatements in the accounting records if complete cash reconciliations are not performed timely and accurately.

Context

Bank reconciliations were not performed during the fiscal year for several accounts. The following was noted:

- For three bank accounts there was no evidence that reconciliations were performed at any time during the fiscal year.
- For one bank account there was only evidence that it had been reconciled two months during the year.
- The main operating account was reconciled during the fiscal year. However, it is unclear if reconciliations were performed timely or if they were reviewed by another individual. In addition, monthly bank reconciliations had unreconciled differences ranging from \$432 to \$1,012, however, at year end, there were no unreconciled differences remaining in the account.

The sample was not intended to be, and was not, a statistically valid sample.

**Boys and Girls Clubs of Tucson, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2022**

**Findings Related to Financial Statements Reported in Accordance with  
*Government Auditing Standards***

**Finding Number:** FS-2022-001

Recommendation

The Club should design and implement effective internal controls and procedures that ensure the general ledger and financial statements are free from potential misstatements. Specifically, the Club should ensure that cash balances are reconciled timely on a monthly basis, and that reconciliations are reviewed and documented by another individual.

Views of Responsible Officials

See Corrective Action Plan.

**Boys and Girls Clubs of Tucson, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2022**

**Findings Related to Financial Statements Reported in Accordance with  
Government Auditing Standards**

**Finding Number:** FS-2022-002

**Repeat Finding:** No

**Type of Finding:** Material Weakness

**Description:** Internal Control Over Revenue

Criteria

Management is responsible for establishing and maintaining internal controls over revenue and receipting to ensure revenues are classified and reported properly in the general ledger. In-kind contributions should be tracked and reported at fair market value in accordance with Accounting Standards Update 2020-07, *Presentations and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*. Revenue should be recognized in accordance with Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* and Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

Condition

The Club did not have adequate internal controls in place over the recognition of revenues.

Cause

Turnover in key positions during the year likely contributed to inadequate oversight of detailed transactions.

Effect

The Club's internal controls over revenue at the general ledger level were not adequate to ensure that a material misstatement would be prevented and/or detected. Audit adjustments were necessary to properly report revenue on the financial statements.

Context

During our review of special event revenue, we noted the following:

- Donated raffle prizes of \$3,530 were not recorded on the Club's general ledger and fair market value documentation was not obtained at the time of donation.
- Donated auction items of \$251,075 were not separately identified from other cash donations in accounting records.
- Approximately \$30,045 of special events revenue could not be agreed to supporting documentation.

During our review of in-kind contributions, we noted the following:

- The Club does not have a process to verify the accuracy of the fair market value of in-kind donations provided by donors.
- In-kind donations of \$4,565 to be used for future special event auctions were not recorded on the Club's general ledger.

**Boys and Girls Clubs of Tucson, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2022**

**Findings Related to Financial Statements Reported in Accordance with  
Government Auditing Standards**

**Finding Number:** FS-2022-002

During our review of donor restricted revenue, we noted the following:

- For one donor restricted contribution reviewed, the Club did not maintain adequate written documentation indicating the donor restriction on the contribution.
- For three donor restricted contributions reviewed, the contribution was not properly classified as donor restricted by the Club.
- Federal revenue of \$6,344 was not reclassified to unrestricted after restrictions were met.

We noted the following revenue recognition errors:

- The Club recognized \$56,557 of federal revenue prior to barriers being met.
- The Club recognized a \$10,000 contribution received in the subsequent year and prior to conditions being met.

The sample was not intended to be, and was not, a statistically valid sample.

Recommendation

The Club should implement effective internal controls over revenues. The Club should maintain adequate records to track and record all special event revenue, including donated raffle prizes and donated auction items. In addition, the Club should have a process to verify the fair market value of in-kind donations and record in-kind donations still on-hand. The Club should retain support for all donor restrictions and have procedures to review the classification of restricted revenue. Lastly, the Club should also ensure all barriers have been met prior to recognizing conditional contributions.

Views of Responsible Officials

See Corrective Action Plan

**Boys and Girls Clubs of Tucson, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2022**

**Findings Related to Financial Statements Reported in Accordance with  
Government Auditing Standards**

**Finding Number:** FS-2022-003

**Repeat Finding:** No

**Type of Finding:** Material Weakness

**Description:** Internal Controls over Disbursements

Criteria

Management is responsible for establishing and maintaining internal controls over disbursements that are adequate to ensure financial activity is properly processed and recorded. As part of a strong internal control structure, and in accordance with Club policy, documentation for disbursement transactions should include approved purchased orders, vendor invoices, and invoice approval.

Condition

The Club did not have adequate internal controls over disbursement processing.

Cause

The Club's internal controls were not adequately established and implemented.

Effect

The Club's internal controls over disbursements are not adequate to ensure that unauthorized purchases or financial statement misstatements would be prevented and/or detected.

Context

During our review of disbursements, we noted the following:

- The Club does not maintain written approval prior to purchases.
- For five of 50 disbursements reviewed, the Club did not maintain supporting documentation, such as a vendor invoice.
- For 19 of 50 disbursements reviewed, the Club did not maintain documentation indicating that the invoice was paid after goods or services were received/rendered.
- For 18 of 50 disbursements reviewed, the Club did not maintain written authorization.
- For two of 50 disbursements reviewed, the payments were made prior to services rendered.
- For two individual purchases, each exceeding \$3,000, the Club did not obtain three quotes in accordance with Club policy.

The sample was not intended to be, and was not, a statistically valid sample.

Recommendation

The Club should enforce stronger internal control policies and procedures over disbursements. The Club should maintain documentation to support all disbursements and ensure goods and/or services are received prior to paying invoices. Written documentation should be maintained for competitive bidding, approved purchase orders and invoice approvals. Adequate review procedures should be in place to detect errors or deviations from policy.

**Boys and Girls Clubs of Tucson, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2022**

**Findings Related to Financial Statements Reported in Accordance with  
*Government Auditing Standards***

**Finding Number:** FS-2022-003

Views Of Responsible Officials

See Corrective Action Plan



**Boys and Girls Clubs of Tucson, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2022**

**Findings Related to Financial Statements Reported in Accordance with  
Government Auditing Standards**

**Finding Number:** FS-2022-004

**Repeat Finding:** No

**Type of Finding:** Material Weakness

**Description:** Internal Controls over Payroll

Criteria

Management is responsible for establishing and maintaining internal controls over payroll processing. This includes establishing controls to ensure that employees are paid in accordance with approved contracts, and that documentation is retained to support all amounts paid.

Condition

The Club did not have adequate internal controls over the payroll function.

Cause

The Club's internal controls were not adequately established and implemented.

Effect

The Club's internal controls over payroll are not adequate to ensure that employee pay is authorized or financial statement misstatements would be prevented and/or detected.

Context

During our review of payroll, we noted the following:

- For three of 15 employee payments reviewed, the employees did not have an approved wage agreement.
- For four of eight hourly employee payments reviewed, the employee timesheets were not approved by the employee or the employee's supervisor.
- For one of eight hourly employee payments reviewed, the employee timesheet was not approved by the employee.
- For three of six employees reviewed, the rates used in the PTO/vacation liability calculation could not be agreed to approved wage agreements.

The sample was not intended to be, and was not, a statistically valid sample.

Recommendation

The Club should implement procedures over payroll processing to ensure adequate documentation. These procedures should include maintaining approved wage agreements for all employees. In addition, all timesheets should be approved by the employee and employee's supervisor.

**Boys and Girls Clubs of Tucson, Inc.  
Schedule of Findings and Questioned Costs  
Year Ended December 31, 2022**

**Findings Related to Financial Statements Reported in Accordance with  
*Government Auditing Standards***

**Finding Number:** FS-2022-004

Views Of Responsible Officials

See Corrective Action Plan

**Boys and Girls Clubs of Tucson, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2022**

**Findings Related to Financial Statements Reported in Accordance with  
Government Auditing Standards**

**Finding Number:** FS-2022-005

**Repeat Finding:** No

**Type of Finding:** Significant Deficiency

**Description:** Internal Controls over Financial Reporting

Criteria

Management is responsible for establishing and maintaining internal control over the Club's accounting records to meet financial reporting objectives of the Club. Controls should include the preparation of complete and accurate financial statements.

Condition

The general ledger and supplementary schedules utilized for financial reporting included classification and recognition errors.

Cause

Due to turnover of personnel and staff vacancies, internal controls over financial reporting could not be thoroughly implemented and executed.

Effect

Internal controls over financial reporting were not adequate to prevent misstatements. Audit adjustments were necessary to properly state the Club's financial statements.

Context

During our review, we noted the following items:

- The accrued PTO/vacation liability account was overstated by \$41,476.
- The pledges receivable balance was understated by \$15,000.
- The refundable advances balance was overstated by \$67,294, and insufficient documentation was maintained regarding revenue recognition.
- Stock donations of \$29,750 were incorrectly classified as investment returns rather than contributions.

The sample was not intended to be, and was not, a statistically valid sample.

Recommendation

The Club should develop and implement stronger internal controls to ensure accounting records and financial statements are free from misstatements and are in accordance with Club policies.

Views Of Responsible Officials

See Corrective Action Plan

**Boys and Girls Clubs of Tucson, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2022**

**Findings and Questioned Costs Related to Federal Awards**

**Finding Number:** 2022-001

**Repeat Finding:** No

**Program Name/Assistance Listing Title:** COVID-19 Coronavirus State and Local Fiscal Recovery Funds

**Assistance Listing Number:** 21.027

**Federal Agency:** U.S. Department of Treasury

**Federal Award Number:** ISA-ARPA-AZABGC-042022-47, GR-GEER-AZABGC-040122-01

**Pass-Through Agency:** Arizona Alliance of Boys and Girls Clubs

**Questioned Costs:** N/A

**Type of Finding:** Noncompliance, Material Weakness

**Compliance Requirement:** Procurement and Suspension and Debarment

Criteria

Non-federal entities other than states, including those operating federal programs as subrecipients of states, must follow the procurement standards set out at 2 CFR §§200.318 through 200.326. They must use their own documented procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable federal statutes and the procurement requirements identified in 2 CFR part 200. Additionally, non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity, as defined in 2 CFR §180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System of Award Management (SAM) maintained by the General Services Administration (GSA) or (2) collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR §180.300).

Condition

The Club did not have proper internal controls over procurement to ensure compliance with federal regulations and guidelines. Adequate supporting documentation was not maintained to demonstrate compliance with procurement standards. In addition, the Club's written procurement standards did not align with federal regulations and guidelines.

Cause

The Club's internal controls over procurement of goods and services were not adequate.

Effect

The Club was not in compliance with Federal regulations and guidelines related to procurement.

**Boys and Girls Clubs of Tucson, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2022**

**Findings and Questioned Costs Related to Federal Awards**

**Finding Number:** 2022-001

Context

During our review of procurement, we noted the following:

- The Club does not have a policy or procedure in place that requires a verification check of suspension and debarment for covered transactions. One purchase charged to the program exceeded \$25,000; however, the Club did not perform a verification check. Audit procedures determined the vendor was not suspended or debarred.
- The Club's procurement policies did not address §200.321 *Contracting with small and minority businesses, women's business enterprises, and labor surplus area firms* or §200.322 *Domestic preferences for procurements*.
- For purchases with two vendors exceeding the micro-purchase threshold but less than the Simplified Acquisition Threshold, the Club did not maintain records sufficient to detail the procurement performed for these vendors.

The sample was not intended to be, and was not, a statistically valid sample

Recommendation

The Club should develop and implement policies and procedures to ensure compliance with federal procurement requirements. Additionally, procurement records should be retained, and should include, but are not necessarily limited to, the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Views of Responsible Officials

See Corrective Action Plan.

**Boys and Girls Clubs of Tucson, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2022**

**Findings and Questioned Costs Related to Federal Awards**

**Finding Number:** 2022-002

**Repeat Finding:** No

**Program Name/Assistance Listing Title:** COVID-19 Coronavirus State and Local Fiscal Recovery Funds

**Assistance Listing Number:** 21.027

**Federal Agency:** U.S. Department of Treasury

**Federal Award Number:** ISA-ARPA-AZABGC-042022-47, GR-GEER-AZABGC-040122-01

**Pass-Through Agency:** Arizona Alliance of Boys and Girls Clubs

**Questioned Costs:** \$5,076

**Type of Finding:** Noncompliance, Significant Deficiency

**Compliance Requirement:** Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance

Criteria

Under 2 CFR §200.303, the Club is required to establish and maintain effective internal controls over Federal awards that provide reasonable assurance that the Club is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition

The Club did not have adequate internal controls in place to ensure eligible costs were charged to the program.

Cause

The Club lacked proper internal controls over payroll and accounts payable processing.

Effect

The Club may have charged unallowable costs to the program.

Context

The Club did not maintain an approved wage agreement for two employees paid from the grant. Therefore, it could not be determined if the wage rates charged to the grant were approved. The questioned cost of \$3,970 represents amounts paid to these employees, less what would have been paid using the local minimum wage rate in effect for a similar number of hours worked. In addition, the Club did not maintain supporting documentation for five of 40 non-payroll expenditures sampled that were charged to the grant, totaling \$1,106. As a result, it could not be determined if the purchases were allowable or expended within the period of performance. The aggregated projected questioned cost for both items noted could be in excess of \$25,000.

The sample was not intended to be, and was not, a statistically valid sample.

**Boys and Girls Clubs of Tucson, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2022**

**Findings and Questioned Costs Related to Federal Awards**

**Finding Number:** 2022-002

Recommendation

The Club should implement procedures over payroll and non-payroll expenditures to ensure the adequate maintenance of documents. These procedures should include maintaining approved wage agreements for all employees and purchase approvals and third party invoices for non-payroll expenditures.

Views Of Responsible Officials

See Corrective Action Plan.



Administrative Offices  
P.O. Box 40217 | Tucson, AZ 85717  
(520) 573-3533 | Fax (520) 573-3569  
email: admin@bgctucson.org  
[www.bgctucson.org](http://www.bgctucson.org)

**BOARD OFFICERS**

**PRESIDENT  
MITCH SIGSWORTH**

**PRESIDENT-ELECT  
JOE GULOTTA**

**TREASURER  
TOM THALLER**

**SECRETARY  
JOAN BONVICINI**

**COUNSELOR  
ALI FARHANG**

**CEO  
DENISE WATTERS**

**EMERITUS BOARD**

DWIGHT BABCOCK  
RICHARD BRATT  
JIM CLICK, JR.  
JEANNIE & COLE DAVIS  
MARY GARRETT-LINSALATA  
ROBERT GUGINO  
SANDI HOLT  
MARK C. IRVIN, CCIM, SIOR  
DAVID LOVITT, JR.  
PAMELA MCNAIR-WINGATE  
DR. WILLIAM N. NEUBAUER  
KELLY OLSON  
CHRIS SERRANO  
HEATHER & JON VOLPE  
MIKE WATTIS  
LAURIE WETTERSCHNEIDER

**SENIOR BOARD**

KYM ADAIR  
LISA BAYLESS  
VANCE FALBAUM  
LAURA FEEMSTER  
KELLE MASLYN  
CATHERENE MORTON  
TOM ROBERTSON  
DEBBIE WAGNER  
JANA WESTERBEKE  
JIM ZARLING

**BOARD MEMBERS**

ADIA BARNES  
LEIGH BRANSTON  
JILL BROOKS  
JULIE BUTCHER  
JENNIFER CARLSON  
SAM DENEKE  
DOMINIC ESCAMILLA  
ESPERANZA FREITCHEN  
CHRISTINA GEARE  
CHRIS GORDON  
SUSAN GRAY  
PAM GRISSOM  
LEIGH-ANNE HARRISON  
CHAD KASMAR  
LIBY LENTZ  
MAYDAY LEVINE-MATA  
JORGE LEYVA  
WENDY MARQUEZ  
LAURA MCGLINN  
JOE MOELLER  
CHRIS NANOS  
TREENA PARVELLO  
KUDDUSI RAMAZANOGLU  
MARITZA RAMOS  
KYRIA SABIN  
ILENE SIPE

November 7, 2023

To Whom It May Concern:

The accompanying Corrective Action Plan has been prepared as required by U.S. Office of Management and Budget Uniform Guidance. The names of the contact person responsible for corrective action, the planned corrective action, and the anticipated completion date for each finding included in the current year's Schedule of Findings and Questioned Costs have been provided.

Sincerely,

Denise Watters  
CEO





**Boys and Girls Clubs of Tucson, Inc.**  
**Corrective Action Plan**  
**Year Ended December 31, 2022**

**Findings Related to Financial Statements Reported in Accordance with  
Government Auditing Standards**

Finding Number: FS-2022-001

Contact Person: Denise Watters, CEO

Anticipated Completion Date: December 2023

Planned Corrective Action: The Club will revise policies, appoint responsible parties, provide training, set a timely reconciliation schedule, institute an independent review process, maintain thorough documentation, monitor and report regularly, promptly resolve unreconciled differences, and involve external auditors for guidance. The Finance Department, led by the Consultant Chief Financial Officer, will oversee plan implementation, with continuous monitoring and evaluation. Completion will be reported to the relevant oversight authorities to strengthen internal controls and ensure compliance with GAAP for accurate financial reporting.

Finding Number: FS-2022-002

Contact Person: Denise Watters, CEO

Anticipated Completion Date: December 2023

Planned Corrective Action: The Club will establish and strengthen internal controls over revenue recognition and documentation. This includes maintaining comprehensive records for special event revenue, verifying the fair market value of in-kind donations, and ensuring accurate classification of restricted revenue. We will better utilize the full accounting code sequence to track restricted activity and will also develop procedures to review donor restrictions and guarantee that all barriers are met before recognizing conditional contributions. By doing so, we aim to enhance our financial transparency and accuracy. Responsible officials will oversee the plan's implementation, and regular monitoring and evaluation will ensure its effectiveness. We will also retain supporting documentation to demonstrate compliance with these corrective actions.

Finding Number: FS-2022-003

Contact Person: Denise Watters, CEO

Anticipated Completion Date: December 2023

Planned Corrective Action: The Club committed to establishing and enforcing stronger internal control policies and procedures. This includes maintaining comprehensive documentation for all disbursements, ensuring that goods and/or services are received before paying invoices, and adhering to written approvals prior to purchases. We will also document competitive bidding processes, obtain three quotes for individual purchases exceeding \$3,000 as per Club policy, and secure written authorizations. To strengthen our controls, we will implement a review process to detect and rectify any errors or policy deviations promptly. Responsible officials will oversee the plan's implementation, and we will maintain adequate records to demonstrate compliance with these corrective actions. This plan is essential to enhance financial accuracy and accountability within the Club.

**Boys and Girls Clubs of Tucson, Inc.**  
**Corrective Action Plan**  
**Year Ended December 31, 2022**

**Findings Related to Financial Statements Reported in Accordance with  
*Government Auditing Standards***

Finding Number: FS-2022-004

Contact Person: Denise Watters, CEO

Anticipated Completion Date: December 2023

Planned Corrective Action: The Club will enhance its existing internal controls with robust procedures. It is important to note that the Club is already utilizing payroll software to electronically review and approve employee timecards. We will continue to maintain approved wage agreements for all employees. By implementing these procedures, we aim to strengthen our controls to ensure that employee pay is accurately authorized, thereby preventing potential financial statement misstatements. Responsible officials will oversee the plan's implementation, and we will maintain comprehensive records to demonstrate compliance with these corrective actions. This plan is integral to improving our financial accuracy, accountability, and compliance within the Club.

Finding Number: FS-2022-005

Contact Person: Denise Watters, CEO

Anticipated Completion Date: December 2023

Planned Corrective Action: Recognizing the importance of accurate financial statements and considering the turnover in key accounting positions, we are taking proactive steps to enhance internal controls. Our Consultant CFO is spearheading the development of processes for reviewing and monitoring the accuracy and reliability of financial data. Additionally, we will strengthen our team and invest in training to ensure the thorough execution of controls, specifically addressing classification and recognition errors in the general ledger and supplementary schedules. By doing so, we aim to prevent financial misstatements and eliminate the need for audit adjustments. Responsible officials will oversee the plan's implementation, and we will maintain comprehensive records to demonstrate compliance with these corrective actions. This plan is essential to enhancing the accuracy and reliability of our financial reporting in line with Club policies.

**Boys and Girls Clubs of Tucson, Inc.**  
**Corrective Action Plan**  
**Year Ended December 31, 2022**

**Findings and Questioned Costs Related to Federal Awards**

Finding Number: 2022-001

Program Name/Assistance Listing Title: COVID-19 Coronavirus State and Local Fiscal Recovery Funds

Assistance Listing Number: 21.027

Contact Person: Denise Watters, CEO

Anticipated Completion Date: December 2023

Planned Corrective Action: The Club will take immediate steps to strengthen its internal controls related to procurement of goods and services. This includes the revision of our written procurement standards to align them with federal regulations and guidelines. Additionally, we will establish procedures for maintaining adequate supporting documentation that demonstrates compliance with federal procurement standards. To ensure compliance with the prohibition on contracting with suspended or debarred parties, we will verify the status of entities with whom we enter into covered transactions using methods such as checking the System of Award Management (SAM) or collecting certifications. Responsible officials will oversee the plan's implementation, and we will maintain comprehensive records to demonstrate our commitment to adhering to federal procurement regulations and guidelines. This corrective action plan is vital to achieving and sustaining compliance with federal procurement standards.

Finding Number: 2022-002

Program Name/Assistance Listing Title: COVID-19 Coronavirus State and Local Fiscal Recovery Funds

Assistance Listing Number: 21.027

Contact Person: Denise Watters, CEO

Anticipated Completion Date: December 2023

Planned Corrective Action: The Club will take immediate steps to bolster its internal controls over payroll and non-payroll expenditures. Specifically, we will ensure the maintenance of proper documentation by obtaining and maintaining approved wage agreements for all employees paid from Federal awards. In addition, we will focus on retaining necessary purchase approvals and third-party invoices for non-payroll expenditures charged to the grant. This will guarantee the accuracy and allowability of costs charged to the program. Responsible officials will oversee the plan's implementation, and we will diligently uphold records to demonstrate our commitment to compliance with Federal award requirements. This corrective action plan is crucial to rectifying these issues and ensuring that our internal controls are effective and that we are in compliance with Federal statutes, regulations, and award terms and conditions.