BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS, ADDITIONAL INFORMATION, AND UNIFORM GUIDANCE SUPPLEMENTAL REPORTS

Year Ended August 31, 2017

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS, ADDITIONAL INFORMATION, AND UNIFORM GUIDANCE SUPPLEMENTAL REPORTS

Year Ended August 31, 2017

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries*** which comprise the consolidated statement of financial position as of August 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries*** as of August 31, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** 2016 consolidated financial statements, and we expressed an unmodified opinion on those consolidated financial statements in our report dated December 16, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2017 on our consideration of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

November 29, 2017

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

August 31, 2017
(with comparative totals at August 31, 2016)

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 1,614,512	$ 1,477,527
Receivables	2,470,084	3,206,894
Other current assets	130,080	91,409
TOTAL CURRENT ASSETS	4,214,676	4,775,830
RECEIVABLES, net	462,500	1,627,128
NOTE RECEIVABLE, net of deferred gain	174,037	176,094
INVESTMENTS	4,125,290	3,051,816
CASH AND CASH EQUIVALENTS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT	35,000	73,050
PROPERTY AND EQUIPMENT, net	15,171,078	15,937,693
INTEREST IN FOUNDATION NET ASSETS	7,212,161	6,642,333
PROPERTY HELD FOR SALE	76,896	76,896
CASH SURRENDER VALUE OF LIFE INSURANCE	137,232	127,172
TOTAL ASSETS	$ 31,608,870	$ 32,488,012

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Accounts payable	$ 259,900	$ 361,362
Accrued expenses	532,659	395,619
Deferred revenues	77,889	100,060
Current maturities of long-term debt	198,073	192,870
Other current liabilities	2,500	2,500
TOTAL CURRENT LIABILITIES	1,071,021	1,052,411
LONG-TERM DEBT, less current maturities	995,682	1,077,262
TOTAL LIABILITIES	2,066,703	2,129,673
NET ASSETS		
Unrestricted:		
Undesignated	18,159,888	18,825,164
Board designated	2,485,017	1,992,716
Total unrestricted net assets	20,644,905	20,817,880
Temporarily restricted	5,535,698	6,407,040
Permanently restricted	3,361,564	3,133,419
TOTAL NET ASSETS	29,542,167	30,358,339
TOTAL LIABILITIES AND NET ASSETS	$ 31,608,870	$ 32,488,012

See Notes to Consolidated Financial Statements

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended August 31, 2017
(with comparative totals for the year ended August 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2017	Totals 2016
SUPPORT AND REVENUES					
Contributions	$ 4,456,554	$ 435,238	$ -	$ 4,891,792	$ 6,082,819
United Way allocations	35,980	582,420	-	618,400	721,157
Governmental fees and grants	1,577,989	-	-	1,577,989	1,509,745
Program service fees	1,000,819	-	-	1,000,819	1,145,269
Change in interest in Foundation net assets	341,683	-	228,145	569,828	(209,297)
Donated materials and services	771,389	-	-	771,389	384,823
Investment income	115,030	-		115,030	49,981
Gain on sale or disposal of property and equipment	8,856	-	-	8,856	25,900
Change in cash surrender value of life insurance	10,060	-	-	10,060	11,280
Net realized and unrealized gains	125,698	-	-	125,698	57,907
Insurance recoveries	1,573	-	-	1,573	-
Other	214,672	-	-	214,672	199,073
Total support and revenues before special events, change in donor intent, and net assets released from restrictions	8,660,303	1,017,658	228,145	9,906,106	9,978,657
Special events revenues	2,096,612	-	-	2,096,612	1,810,820
Less costs of direct donor benefits	(470,560)	-	-	(470,560)	(480,234)
Gross profit on special events	1,626,052	-	-	1,626,052	1,330,586
Change in donor intent	101,764	(101,764)	-	-	-
Net assets released from restrictions	1,787,236	(1,787,236)	-	-	-
TOTAL SUPPORT AND REVENUES	12,175,355	(871,342)	228,145	11,532,158	11,309,243
EXPENSES					
Programs:					
Social adjustment, development and recreation	10,803,170	-	-	10,803,170	10,196,582
Supporting services:					
Management and general	639,099	-	-	639,099	518,518
Fundraising	906,061	-	-	906,061	715,633
TOTAL EXPENSES	12,348,330	-	-	12,348,330	11,430,733
CHANGE IN NET ASSETS	(172,975)	(871,342)	228,145	(816,172)	(121,490)
NET ASSETS, BEGINNING OF YEAR	20,817,880	6,407,040	3,133,419	30,358,339	30,479,829
NET ASSETS, END OF YEAR	$ 20,644,905	$ 5,535,698	$ 3,361,564	$ 29,542,167	$ 30,358,339

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2017
(with comparative totals for the year ended August 31, 2016)

	Social Adjustment, Development and Recreation Programs	Management and General	Fundraising	Totals 2017	Totals 2016
Personnel costs:					
Salaries	$ 4,994,865	$ 260,623	$ 555,820	$ 5,811,308	$ 5,513,116
Employee benefits	538,538	27,097	78,928	644,563	587,716
Payroll taxes	425,494	20,063	41,906	487,463	468,242
Total personnel costs	5,958,897	307,783	676,654	6,943,334	6,569,074
Professional fees	396,864	114,943	56,375	568,182	515,734
Supplies	1,597,360	9,379	3,382	1,610,121	1,398,642
Occupancy	677,047	46,691	14,084	737,822	699,847
Insurance	150,715	7,600	2,335	160,650	145,069
Telephone	60,567	11,199	5,116	76,882	81,200
Conferences, conventions and meetings	32,511	19,440	13,149	65,100	62,764
Repairs and maintenance	131,225	32,195	18,063	181,483	149,668
Contribution to foundation	50,000	-	-	50,000	-
Youth assistance	112,845	-	-	112,845	115,100
Transportation	78,476	1,053	1,279	80,808	84,197
Printing and publication	19,921	7,440	19,727	47,088	32,303
Training	35,917	9,000	4,723	49,640	51,720
Marketing	-	-	3,470	3,470	6,434
National dues	30,753	-	-	30,753	27,965
Postage	2,227	2,642	2,497	7,366	6,943
Interest	11,528	16,469	4,941	32,938	24,358
Other	24,642	15,383	68,775	108,800	73,685
Total expenses before depreciation expense	9,371,495	601,217	894,570	10,867,282	10,044,703
Depreciation expense	1,431,675	37,882	11,491	1,481,048	1,386,030
TOTAL EXPENSES	$ 10,803,170	$ 639,099	$ 906,061	$ 12,348,330	$ 11,430,733

See Notes to Consolidated Financial Statements

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended August 31, 2017
(with comparative totals for the year ended August 31, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (816,172)	$ (121,490)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,481,048	1,386,030
Unrealized gain on investments	(131,103)	(56,213)
Realized loss (gain) on investments	5,405	(1,694)
Amortization of gain on sale of property held for sale	(2,280)	-
Gain on sale of property held for sale	-	(22,910)
Gain on sale of property and equipment	(6,576)	(2,990)
Provision for bad debts	4,093	10,180
Forgiveness of CDBG debt	-	(99,369)
Contributed property and equipment included in support	(565,122)	(213,176)
Contributed stock not liquidated before year end included in support	(41,324)	-
Contributions restricted to investment in property and equipment	(35,000)	(73,050)
Change in interest in Foundation net assets	(569,828)	209,297
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	1,897,345	(506,067)
Other current assets	(38,671)	22,108
Increase (decrease) in:		
Accounts payable	(46)	35,635
Accrued expenses	137,040	60,099
Deferred revenues	(22,171)	68,359
Net cash provided by operating activities	1,296,638	694,749
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in cash and cash equivalents restricted to investment in property and equipment	38,050	859,950
Purchases of property and equipment	(252,851)	(1,554,513)
Purchases of investments	(3,078,013)	(2,862,613)
Change in cash surrender value of life insurance	(10,060)	(11,280)
Proceeds from sale of assets held for sale, net of selling costs	-	24,270
Purchases of assets held for sale	-	(15,541)
Proceeds from note receivable	4,337	2,063
Proceeds from sale of property and equipment	8,700	11,054
Proceeds from sales of investments	2,171,561	1,716,218
Net cash used in investing activities	(1,118,276)	(1,830,392)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted to investment in property and equipment	35,000	73,050
Proceeds from term loan	42,000	35,700
Payments on line of credit	(118,377)	(196,429)
Net cash used in financing activities	(41,377)	(87,679)
NET CHANGE IN CASH AND CASH EQUIVALENTS	136,985	(1,223,322)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,477,527	2,700,849
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,614,512	$ 1,477,527
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 32,427	$ 24,358
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Contributed property and equipment	$ 565,122	$ 213,176
Forgiveness of CDBG debt	$ 74,489	$ 99,369
Purchases of property and equipment included in accounts payable	$ -	$ 101,416
Seller carry note receivable on sale of asset held for sale	$ -	$ 373,500
Contributed stock not liquidated before year end	$ 41,324	$ -

See Notes to Consolidated Financial Statements

(1) Clubs operations and summary of significant accounting policies

Nature of operations - The ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries*** (the "Clubs"), an Arizona nonprofit corporation, is affiliated with the Boys & Girls Clubs of America, a national organization. The Clubs operate thirteen clubhouses, one dental clinic, and an administrative and youth conference center in the Metropolitan Phoenix area.

The Clubs provide a safe place for youth in the Phoenix metropolitan area, particularly those youth living in the most threatening and vulnerable environments. The goal is to engage youth in activities that are fun and enjoyable, while supporting their development. Currently, the clubhouses and outreach youth services affect approximately 26,000 area children ages 6 to 18.

All of the programs and activities are designed to help young people have a safe place to learn, grow and to participate in life-enhancing programs and character development experiences. The Clubs focus on programs in five core program areas: Character and Leadership Development; Education and Career Development; Health and Life Skills; The Arts; Sports, Fitness and Recreation. These programs help youth develop a positive self-identity, a sense of belonging to a community, educational, employment, social, emotional and cultural competencies; and the values enabling them to develop positive relationships with others. Youth who enter the world with these capacities can become responsible citizens and leaders who make meaningful contributions and live successful lives.

On January 17, 2007, the Clubs formed BG Development, LLC, with the Clubs as the sole member. BG Development, LLC was formed to construct three new clubhouses, which were completed during 2009.

On April 7, 2014, the Clubs formed BGC Managers, LLC, with the Clubs as the sole member. BGC Managers, LLC was formed to administer management services for the Boys & Girls Clubs of Central Arizona under a memorandum of understanding between Boys & Girls Clubs of Central Arizona, BGC Managers, LLC and Boys & Girls Clubs of America.

The significant accounting policies followed by the Clubs and its subsidiaries, BG Development, LLC and BGC Managers, LLC, collectively referred to in these consolidated financial statements as the "Clubs" are summarized below:

Basis of presentation - The accompanying consolidated financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-for-Profit Entities – Presentation of Financial Statements.* Under FASB ASC 958-205, the Clubs are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Principles of consolidation - The accompanying consolidated financial statements of the ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries*** include the accounts of the Clubs and its wholly owned subsidiaries, BG Development, LLC and BGC Managers, LLC. All significant intercompany transactions and accounts have been eliminated in consolidation.

Prior year summarized information - The consolidated 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Clubs' consolidated financial statements for the year ended August 31, 2016, from which the summarized information was derived.

(1) Clubs operations and summary of significant accounting policies (continued)

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

Revenue recognition - The Clubs recognize amounts received from grants and contracts as earned when the services are rendered under a unit of service contract. Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Clubs with the terms of the grant or contract. Program service fees are recognized in the period to which the fees relate. Fees received prior to the occurrence of a scheduled event are deferred until the period in which the event occurs.

Contributions - The Clubs account for contributions in accordance FASB ASC 958-605*, Not-for-Profit Entities – Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Restricted support, where restrictions are met in the same period as the contribution is made, is shown as unrestricted support.

Cash and cash equivalents - Cash consists of cash and, at times, cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Deposits at each financial institution are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC").

Bequests - Bequests are recognized as contribution revenue in the period the Clubs receive notification the court has found the will of the donor's estate to be valid and all conditions have been substantially met.

Promises to give - Unconditional promises to give (pledges) that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including when the receivable is expected to be collected, the creditworthiness of the other parties, the Club's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the pledge's collectability. Amortization of the discounts is included in support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

(1) Clubs operations and summary of significant accounting policies (continued)

Grants and contracts receivable - Grants and contracts receivable are stated at the amount management expects to collect under the terms of the agreements. Management provides for probable uncollectible amounts, if considered necessary, through a charge to earnings and a credit to a valuation allowance based on their assessment of the current status of the individual amounts. 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 grants and contracts receivable.

Note receivable - Note receivable is stated at the amount management expects to collect under the terms of the note agreement. Management provides for probable uncollectible amounts, if considered necessary, through a charge to earnings and a credit to a valuation allowance based on their assessment of the current status of the individual amounts. 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 note receivable. The note receivable is secured by the underlying collateral and, accordingly, the Clubs follow FASB ASC 310-10, *Receivables*, which requires the Clubs to measure impairment of the note receivable based on the fair value of the underlying collateral.

Interest on the note receivable is recognized over the term of the note and is calculated using the simple-interest method on principal outstanding.

Property and equipment and related depreciation - Purchased property and equipment is valued at cost, and donated property and equipment is recorded at fair value at the date of gift to the Clubs. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of $1,000 are capitalized. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is computed on a straight-line basis over the following estimated useful lives:

Land improvements	17 years
Buildings and improvements	3 to 30 years
Furniture and equipment	3 to 5 years

Impairment of long-lived assets - The Clubs account for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant, and Equipment.* FASB ASC 360 requires that long-lived assets be reviewed 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 undiscounted 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. No impairment charges were recorded for 2017 or 2016.

Special events revenue - The Clubs conduct special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Clubs. The direct costs of the special events which ultimately benefit the donor rather than the Clubs are recorded as costs of direct donor benefits. All proceeds received in excess of the direct costs are recorded as gross profit on special events in the accompanying consolidated statement of activities.

(1) Clubs operations and summary of significant accounting policies (continued)

Donated materials and services - Donated materials are reflected as contributions in the consolidated statement of activities at their estimated fair values at the date of receipt. Donated services are recognized as contributions in accordance with FASB ASC 958-605 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. No amounts have been reflected in the consolidated financial statements for certain donated volunteer services because they did not qualify for recording under the guidelines of FASB ASC 958-605; however, a substantial number of volunteers have donated significant amounts of their time in the Clubs' program services and fundraising campaigns. Management estimates that the unrecorded value of donated services was $408,021 and $434,495 for the years ended August 31, 2017 and 2016, respectively.

The Clubs received the following donated materials and services:

	Used for	2017	2016
Professional services	Various	$ 8,463	$ 2,715
Property and equipment	Program	565,122	213,176
Other	Various	197,804	168,932
		$ 771,389	$ 384,823

Functional expenses - Expenses are charged to program services, management and general, and fundraising categories based on direct expenditures incurred. Any expenditures not directly chargeable are allocated based on personnel activity or other appropriate indicators.

Income tax status - The Clubs qualify as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and, accordingly, there is no provision for income taxes. In addition, the Clubs qualify for the charitable contribution deduction under Section 170 of the IRC and have been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (“UBTI”) would be taxable. BG Development, LLC and BGC Managers, LLC are treated as a disregarded entities for income tax purposes, and accordingly, all income and expenses are passed through to the Clubs.

The Clubs evaluate their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. The Clubs believe that they have appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the consolidated financial statements.

The Club’s federal Return of Organizations Exempt from Income Tax (Form 990) for fiscal 2014, 2015 and 2016 are subject to examination by the IRS, generally for the three years after they were filed. As of the date of this report, the 2017 Form 990 has not been filed.

(1) Clubs operations and summary of significant accounting policies (continued)

Fair value measurements - FASB ASC 820, *Fair Value Measurements,* establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. FASB ASC 820 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. FASB ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

Recent accounting pronouncements - In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing and uncertainty of revenue that is recognized.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which changed the effective date of the provisions of FASB ASU No. 2014-09. As a result, the new effective dates for public business entities, certain not-for-profit entities, and certain employee benefit plans to apply the guidance in FASB ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in FASB ASU No. 2015-09 to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Transition to the new guidance may be done using either a full or modified retrospective method. The Clubs is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*. ASU 2015-03 requires that debt issuance costs be presented in the consolidated statement of financial position as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. An entity should apply this new guidance on a retrospective basis, wherein the consolidated statement of financial position of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. The recognition guidance for debt issuance costs would not be affected by this ASU. ASU 2015-03 is effective for public business entities for fiscal years beginning after December 15, 2015, and interim period within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. The Clubs adopted ASU 2015-03 as of August 31, 2017 without significant impact on their overall consolidated financial position or operations.

(1) Clubs operations and summary of significant accounting policies (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842*). ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the balance sheet upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Clubs has estimated that if they were to adopt the standard for the year ending August 31, 2017, a non-current right of use asset of $451,000 and a corresponding current and non-current lease liability of $91,000 and $360,000, respectively, would be recorded in the accompanying balance sheet. The estimate was calculated using the minimum future lease payments (see Note 12) assuming a discount rate of 3.75% representing the Clubs' estimated incremental borrowing rate.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 improves the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. The amendments of this ASU are to be applied on a retrospective basis in the year that the ASU is first applied. The Clubs are currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's ability to Continue as a Going Concern*. The amendments in ASU 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. FASB ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. The Clubs adopted ASU 2014-15 in 2017 with no significant impact to their consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows* (*Topic 230*). This ASU requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in the ASU do not provide a definition of restricted cash or restricted cash equivalents. The ASU is effective for all nonpublic business entities for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Clubs does not expect the adoption of this standard will have a significant impact on the consolidated financial statements.

Subsequent events - The Clubs have evaluated events through November 29, 2017 which is the date the consolidated financial statements were available to be issued.

(2) Receivables

Receivables consist of the following:

	2017	2016
Current Receivables:		
United Way allocations	$ 582,420	$ 693,305
Unconditional promises to give due in less than one year	1,744,017	2,165,793
Grants and contracts	93,533	218,659
Event receivables	50,060	90,637
Other receivables	54	38,500
Total current receivables	2,470,084	3,206,894
Event receivables due in two to four years, net of discount of $0 and $59 as of August 31, 2017 and 2016, respectively	-	2,128
Unconditional promises to give due in two to four years, net of discount of $37,500 and $125,000 as August 31, 2017 and 2016, respectively	462,500	1,625,000
Total receivables, net	$ 2,932,584	$ 4,834,022

The Clubs' receivables consist of amounts due from United Way, Boys & Girls Clubs of Metropolitan Phoenix Foundation ("Foundation"), government agencies and other parties and, accordingly, credit risk is limited.

At August 31, 2017 and 2016, unconditional promises to give consists primarily of two multi-year pledges from a single donor to be used for improvements and general operations of a new Branch located in the Balsz School District. This pledge receivable from a single donor represents approximately 58% and 56% of total net receivables as of August 31, 2017 and 2016, respectively. All receivable balances at August 31, 2017 and 2016 are considered fully collectible by management and, accordingly, an allowance for doubtful accounts has not been provided.

The estimated cash flows for unconditional promises to give and event receivables were discounted over the collection period using discount rates ranging from 1.6% to 5%.

(3) Investments

The Clubs account for their investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities - Investments - Debt and Equity Securities* and FASB ASC 958-325, *Not-for-Profit Entities - Investments - Other*. Under FASB ASC 958-320, the Clubs are required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair values of these investments are based on quoted market prices. Certificates of deposit are held to maturity and carried at amortized cost (which approximates fair value). Under FASB ASC 958-325, investments in common stock that do not have readily determinable fair values are recorded at fair value at the dates the investments were purchased or donated and are periodically revalued through appropriate valuation methods.

(3) Investments (continued)

Investments consist of the following at August 31:

	2017	2016
Capital appreciation mutual funds:		
Asset allocation funds	$ 2,288,368	$ 1,709,374
U.S. large cap stock	41,331	-
Total capital appreciation mutual funds	2,329,699	1,709,374
Capital preservation funds:		
Fixed income bond mutual funds-short term	1,787,582	1,335,999
Money market funds	3,008	2,442
Other capital preservation funds	5,001	4,001
Total capital preservation funds	1,795,591	1,342,442
Total investments	$ 4,125,290	$ 3,051,816

Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risk in the near term could materially affect account balances and the amounts in the accompanying consolidated financial statements. Expenses relating to investment revenues, including custodial fees and investment advisory fees, were $8,848 and $5,121 for the years ended August 31, 2017 and 2016, respectively, and are included in professional fees in the accompanying consolidated statement of functional expenses.

The Clubs investments are primarily invested for long-term goals and are reported as long-term assets.

(4) Property and equipment

Property and equipment consist of:

	2017	2016
Cost and donated value:		
Land and land improvements	$ 1,140,097	$ 1,132,484
Buildings and improvements	27,013,861	26,961,546
Furniture and equipment	3,321,270	2,901,131
Construction in progress	-	4,500
Total cost and donated value	31,475,228	30,999,661
Accumulated depreciation	(16,304,150)	(15,061,968)
Property and equipment, net	$ 15,171,078	$ 15,937,693

Depreciation expense charged to operations was $1,481,048 in 2017 and $1,386,030 for 2016.

Construction in progress consisted of renovations and improvements to existing facilities that had not yet been placed into service. The assets were placed into service during 2017.

(5) Property held for sale

Property held for sale consists of a property located in Show Low, Arizona which was used as a retreat facility by the Clubs. The facilities were destroyed in a fire several years ago and the Clubs decided not to rebuild them. The Board of Directors has approved the sale of this property.

Property held for sale is carried at the lesser of the book value or fair value. As of August 31, 2017 and 2016, property held for sale in the accompanying consolidated statement of financial position was $76,896. No impairment charges were recorded for 2017 or 2016.

(6) Note receivable

In November 2015, the Clubs sold the Glendale property to a third-party for a price of $415,000, which included cash consideration and a note receivable for $373,500. The Clubs are financing the note receivable over 5 years, based a 30 year amortization schedule. The loan is due in 2021 and bears interest at a rate of 6.5%.
The Clubs recognize revenue on sale of real estate when a minimum percentage of the sales price has been received in cash, the legal rescission period has expired, and collectability of the receivable representing the remainder of the sales price is reasonably assured. The minimum percentage of the sales price is a range that is dependent upon the credit risk of the buyer and the nature of the real estate sold.

Sales that do not meet the criteria for revenue recognition described above are deferred using the installment method. Under the installment method, each cash receipt and principal payment by the buyer on debt assumed is apportioned between cost recovered and profit. The apportionment is in the same ratio as total cost and total profit bear to the sales value.

Because of the proportion of cash and cash equivalents to the total sales price was insufficient to record the sale on the full accrual method, the installment method was used to recognize the gain in the accompanying consolidated financial statements. Accordingly, the gain on the sale will be recognized as the sales price is collected. The following summarizes the Club's gain on the sale:

Selling price		$ 415,000
Costs		
Glendale property	$ 179,517	
Commissions and other closing costs	17,230	196,747
Total gain		218,253
Portion deferred to future years at time of sale		195,343
Principal received in 2017		$ 4,337
Portion recognized as gain in 2017		$ 2,280

At August 31, 2017, scheduled collections of principal on the note receivable are as follows:

Years Ending August 31,	
2018	$ 4,601
2019	4,909
2020	5,238
2021	352,352
Total annual payments	367,100
Less deferred gain	(193,063)
Total note receivable, net of discount	$ 174,037

(7) Cash surrender value of life insurance

The Clubs are the beneficiary of a life insurance policy of a board member. The face amount of the policy is approximately $500,000. The policy is recorded at its cash surrender value. Policy earnings and expenses are included in the accompanying consolidated statement of activities.

(8) Long-term debt

Long-term debt includes interest free notes payable to the City of Phoenix for various maintenance and improvement projects at branch locations. The principal balance of the notes is forgiven from the certificate of completion date (November 7, 2007, April 1, 2008, November 19, 2009, March 19, 2010, June 30, 2011, January 31, 2013, February 24, 2014, May 28, 2015, May 24, 2016 and May 8, 2017 respectively) over 10 years, at 20 percent per year over the last five years of the term of the notes, provided the properties are used exclusively for low and moderate income persons or eligible programs. If the Clubs fail to comply with the grant restrictions, the Clubs will be required to repay the full amount of the notes on demand. At August 31, 2017 and 2016, $383,560 and $341,560 were outstanding under these notes, respectively.

The Clubs entered into a $1,500,000 line of credit on July 26, 2014 for the purpose of pre-paying long-term debt described above in fiscal 2015. The line is for a period of 5 years, carries a fixed 2.45% interest rate, and will be amortized over a 7 year term. The line was collateralized by securities of the Foundation. During fiscal 2016, the Clubs refinanced the line of credit and retired the existing line. The new line is for a period of 5 years, caries a fixed 3.50% interest rate, and will be amortized over a 7 year term. The line was collateralized by securities of the Foundation. At August 31, 2017 and 2016 $810,195 and $928,572 was outstanding under this line of credit, respectively.

During fiscal 2016 the Clubs obtained a new $300,000 line of credit with a scheduled maturity of August 1, 2017. Interest was the indexed rate of the lender, which was their prime rate. The indexed rate was approximately 3.5% at the time the line was established. During fiscal 2017 the Clubs refinanced this $300,000 line of credit. This new line is available until July 1, 2018. Interest will be the indexed rate of the lender, which is their prime rate. The indexed rate was approximately 4.5% at August 31, 2017. No amounts are outstanding under this line of credit.

At August 31, 2017, estimated annual maturities of long-term debt outstanding are as follows:

Years Ending August 31,	
2018	$ 198,073
2019	174,716
2020	191,286
2021	468,640
2022	37,418
Subsequent to 2022	123,622
Total annual debt maturities	$ 1,193,755

(9) Board designated unrestricted assets

The board of directors has designated portions of the unrestricted net assets for various purposes, including staffing, the purchase of supplies, special projects, and operating reserves.

(10) Temporarily restricted net assets

Temporarily restricted net assets consist of:

	2017	2016
Purpose restrictions:		
Capital campaign and facilities remodel	$ 35,000	$ 73,050
Restricted for specific clubs or programs	4,347,139	4,907,694
Scholarship fund	441,602	590,028
Time restrictions:		
United Way	582,420	693,305
Special events	129,537	142,963
Total temporarily restricted net assets	$ 5,535,698	$ 6,407,040

(10) Temporarily restricted net assets (continued)

Releases from temporarily restricted net assets consist of:

	2017	2016
Purpose restrictions:		
Capital campaign and facilities remodel	$ 48,050	$ 1,091,263
Restricted for specific clubs or programs	788,846	1,021,594
Scholarship fund	215,836	56,275
Time restrictions:		
United Way	693,305	844,892
Special events	142,963	66,970
Total releases from temporarily restricted net assets	$ 1,889,000	$ 3,080,994

(11) Permanently restricted net assets

Permanently restricted net assets consist of the Clubs' interest in permanently restricted net assets of the Boys & Girls Clubs of Metropolitan Phoenix Foundation as described in Note 15.

(12) Commitments and contingencies

Litigation – From time to time, the Clubs are involved in various legal actions, occurring in the normal course of business. In the opinion of management, based on consultation with legal counsel, there will be no adverse effect on the consolidated financial position or results of operations as a result of these matters.

Operating leases - The Clubs have various operating leases for equipment, which expire through 2024. Minimum future rental payments under these noncancellable operating leases are as follows:

Years Ending August 31,	
2018	$ 94,685
2019	83,721
2020	74,052
2021	66,038
2022	66,038
Subsequent to 2022	132,251
Total minimum future rental payments	$ 516,785

The operating leases make no provisions for renewal options, however, in the normal course of business the Clubs will either renew the leases or seek other arrangements. Rent expense was $96,461 and $138,733 in 2017 and 2016, respectively.

(13) Retirement plan

The Clubs have a non-contributory defined contribution pension plan for all employees who meet specified age and service requirements. The plan is administered by the Clubs. The Clubs make annual contributions in the amount of 5% of eligible salaries in 2017 and 2016. Total pension expense was $160,955 and $161,083 for 2017 and 2016, respectively.

(14) Related party transactions

The Clubs received contributions from board of director members of $2,526,188 in 2017 and $1,552,230 in 2016. Approximately $699,236 of the amount received in 2017 and $563,170 of the amount received in 2016 consisted of donated materials and services which were recorded at the estimated fair value of the materials and services provided.

The Clubs received revenues from their national affiliate, The Boys and Girls Clubs of America, of $162,076 in 2017 and $274,975 in 2016.

The Clubs paid dues to their national affiliate, The Boys and Girls Clubs of America, of $30,753 in 2017 and $27,965 in 2016.

The Clubs received contributions from a related organization, Boys & Girls Clubs of Metropolitan Phoenix Foundation (the "Foundation") of $384,859 in 2017 and $385,032 in 2016, of which $384,859 and $385,032 are included in unconditional promises to give at year-end, as of August 31, 2017 and 2016, respectively.

The Foundation reimbursed the Clubs $130,796 and $112,520 for operational activity costs that were conducted by staff of the Clubs during 2017 and 2016, respectively. These revenues are included in the accompanying statement of activities within other support and revenues. Accounts receivable from the Foundation related to reimbursement of operational activity costs was $67,895 and $83,273 at August 31, 2017 and 2016, respectively. These balances are included in unconditional promises to give.

During fiscal 2017, the Club contributed $50,000 to the Foundation. No such amounts were contributed in fiscal 2016.

(15) Interest in Foundation net assets

The Clubs and the Foundation, a separate 501(c)(3) organization, are financially interrelated organizations as defined by FASB ASC 958-605, Not-*for-Profit Entities – Revenue Recognition*. The Foundation has a separate Board of Trustees of which the Clubs do not have a controlling interest. The Foundation collects and manages funds exclusively for the benefit of the Clubs. As such, the Clubs are the beneficiary of and have an explicit ongoing economic interest in the net assets of the Foundation. The economic interest recorded in the accompanying consolidated statement of financial position represents the Clubs' beneficial interest in the net assets of the Foundation. The Clubs' beneficial interest in the net assets of the Foundation totaled $7,212,161 and $6,642,333 as of August 31, 2017 and 2016, respectively.

Summarized financial information of the Foundation as of and for the years ended August 31 is as follows:

	2017	2016
Total assets	$ 7,667,835	$ 7,113,543
Total liabilities	$ 455,674	$ 471,210
Net assets		
Unrestricted net assets	3,850,597	3,508,914
Temporarily restricted net assets	-	-
Permanently restricted net assets	3,361,564	3,133,419
Total net assets	$ 7,212,161	$ 6,642,333
Total revenue	$ 1,145,274	$ 350,829
Total expense	$ 575,446	$ 560,126

(15) Interest in Foundation net assets (continued)

The assets of the Foundation consist primarily of investments that are measured at fair value using Level 1 observable inputs. The liabilities of the Foundation consist primarily of amounts due to the Clubs.

(16) Fair value measurements

The following table summarizes the valuation of the Clubs' assets and liabilities subject to recurring fair value measurement by the above FASB ASC 820 categories as of August 31, 2017:

	Total	Level 1	Level 2	Level 3
Capital appreciation mutual funds:				
Asset allocation funds	$ 2,288,368	$ 2,288,368	$ -	$ -
Domestic equity:				
U.S. large cap stock	41,331	41,331	-	-
Capital preservation funds:				
Fixed income bond mutual funds-short term	1,787,582	1,787,582	-	-
Money market funds	3,008	3,008	-	-
Other capital preservation funds	5,001	5,001	-	-
Total capital preservation funds	1,795,591	1,795,591	-	-
Total investments at fair value	$ 4,125,290	$ 4,125,290	$ -	$ -

The following table summarizes the valuation of the Clubs' assets and liabilities subject to recurring fair value measurement by the above FASB ASC 820 categories as of August 31, 2016:

	Total	Level 1	Level 2	Level 3
Capital appreciation mutual funds:				
Asset allocation funds	$ 1,709,374	$ 1,709,374	$ -	$ -
Capital preservation funds:				
Fixed income bond mutual funds-short term	1,335,999	1,335,999	-	-
Money market funds	2,442	2,442	-	-
Other capital preservation funds	4,001	4,001	-	-
Total capital preservation funds	1,342,442	1,342,442	-	-
Total investments at fair value	$ 3,051,816	$ 3,051,816	$ -	$ -

ADDITIONAL INFORMATION

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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors of

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARY

We have audited the consolidated financial statements of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary*** as of and for the year ended August 31, 2017,and our report thereon dated November 29, 2017 which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The consolidating information on the schedules that follow on pages 21 and 22 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities, and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mayer Hoffman McCann P.C.

November 29, 2017

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

ADDITIONAL INFORMATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

August 31, 2017

ASSETS

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	BGC Managers, LLC	Eliminations and Consolidations	Total
CURRENT ASSETS					
Cash and cash equivalents	$ 1,614,512	$ -	$ -	$ -	$ 1,614,512
Receivables	2,470,084	-	11,044	(11,044)	2,470,084
Other current assets	130,080	-	-	-	130,080
TOTAL CURRENT ASSETS	4,214,676	-	11,044	(11,044)	4,214,676
RECEIVABLES, net	462,500	-	-	-	462,500
NOTE RECEIVABLE, net of deferred gain	174,037	-	-	-	174,037
INVESTMENTS	4,125,290	-	-	-	4,125,290
CASH AND CASH EQUIVALENTS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT	35,000	-	-	-	35,000
PROPERTY AND EQUIPMENT, net	15,171,078	7,839,708	-	(7,839,708)	15,171,078
INTEREST IN FOUNDATION NET ASSETS	7,212,161	-	-	-	7,212,161
PROPERTY HELD FOR SALE	76,896	-	-	-	76,896
CASH SURRENDER VALUE OF LIFE INSURANCE	137,232	-	-	-	137,232
TOTAL ASSETS	$ 31,608,870	$ 7,839,708	$ 11,044	$ (7,850,752)	$ 31,608,870

LIABILITIES AND NET ASSETS

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	BGC Managers, LLC	Eliminations and Consolidations	Total
CURRENT LIABILITIES					
Accounts payable	$ 259,900	$ -	$ -	$ -	$ 259,900
Payable to Parent	-	7,839,708	11,044	(7,850,752)	-
Accrued expenses	532,659	-	-	-	532,659
Deferred revenues	77,889	-	-	-	77,889
Current maturities of long-term debt	198,073	-	-	-	198,073
Other current liabilities	2,500	-	-	-	2,500
TOTAL CURRENT LIABILITIES	1,071,021	7,839,708	11,044	(7,850,752)	1,071,021
LONG-TERM DEBT, less current maturities	995,682	-	-	-	995,682
TOTAL LIABILITIES	2,066,703	7,839,708	11,044	(7,850,752)	2,066,703
NET ASSETS					
Unrestricted:					
Undesignated	18,159,888	-	-	-	18,159,888
Board designated	2,485,017	-	-	-	2,485,017
Total unrestricted net assets	20,644,905	-	-	-	20,644,905
Temporarily restricted	5,535,698	-	-	-	5,535,698
Permanently restricted	3,361,564	-	-	-	3,361,564
TOTAL NET ASSETS	29,542,167	-	-	-	29,542,167
TOTAL LIABILITIES AND NET ASSETS	$ 31,608,870	$ 7,839,708	$ 11,044	$ (7,850,752)	$ 31,608,870

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

ADDITIONAL INFORMATION

CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended August 31, 2017

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	BGC Managers, LLC	Eliminations and Consolidations	Total
SUPPORT AND REVENUES					
Contributions	$ 4,891,792	$ -	$ -	$ -	$ 4,891,792
United Way allocations	618,400	-	-	-	618,400
Governmental fees and grants	1,577,989	-	-	-	1,577,989
Program service fees	1,000,819	-	-	-	1,000,819
Change in interest in Foundation net assets	569,828	-	-	-	569,828
Donated materials and services	771,389	-	-	-	771,389
Investment income	115,030	-	-	-	115,030
Gain on sale or disposal of property and equipment	8,856	-	-	-	8,856
Change in cash surrender value of life insurance	10,060	-	-	-	10,060
Net realized and unrealized gains	125,698	-	-	-	125,698
Insurance recoveries	1,573	-	-	-	1,573
Other	(170,098)	373,726	11,044	-	214,672
Total support and revenues before special events	9,521,336	373,726	11,044	-	9,906,106
Special events revenues	2,096,612	-	-	-	2,096,612
Less costs of direct donor benefits	(470,560)	-	-	-	(470,560)
Gross profit on special events	1,626,052	-	-	-	1,626,052
TOTAL SUPPORT AND REVENUES	11,147,388	373,726	11,044	-	11,532,158
EXPENSES					
Programs:					
Social adjustment, development and recreation	10,418,400	373,726	11,044	-	10,803,170
Supporting services:					
Management and general	639,099	-	-	-	639,099
Fundraising	906,061	-	-	-	906,061
TOTAL EXPENSES	11,963,560	373,726	11,044	-	12,348,330
CHANGE IN NET ASSETS	(816,172)	-	-	-	(816,172)
NET ASSETS, BEGINNING OF YEAR	30,358,339	-	-	-	30,358,339
NET ASSETS, END OF YEAR	$ 29,542,167	$ -	$ -	$ -	$ 29,542,167

UNIFORM GUIDANCE
SUPPLEMENTAL REPORTS

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2017

Federal Grantor / Pass-Through Agency / Program or Cluster Title	Federal CFDA Number	Contract Number	Federal Expenditures
U.S. Department of Agriculture			
Passed through Arizona Department of Education			
Child and Adult Care Food Program	10.558	n/a	$ 1,064,657
Passed through Arizona Department of Education			
Summer Food Service Program for Children	10.559	n/a	294,923
Total U.S. Department of Agriculture			1,359,580
U.S. Department of Housing and Urban Development			
Passed through City of Phoenix			
Community Development Block Grants / Entitlement Grants	14.218	143455-0	20,000
Community Development Block Grants / Entitlement Grants	14.218	144193-0	42,000
Community Development Block Grants / Entitlement Grants	14.218	141741	35,700
Community Development Block Grants / Entitlement Grants	14.218	139791-0	30,519
Community Development Block Grants / Entitlement Grants	14.218	136847-0	60,000
Community Development Block Grants / Entitlement Grants	14.218	129690	54,900
Community Development Block Grants / Entitlement Grants	14.218	132809	60,872
Community Development Block Grants / Entitlement Grants	14.218	125758	53,280
Community Development Block Grants / Entitlement Grants	14.218	127427	40,800
Community Development Block Grants / Entitlement Grants	14.218	122441	39,979
Community Development Block Grants / Entitlement Grants	14.218	121982	40,000
Community Development Block Grants / Entitlement Grants	14.218	117546	11,880
Community Development Block Grants / Entitlement Grants	14.218	106873	13,000
Passed through City of Glendale			
Community Development Block Grants / Entitlement Grants	14.218	C-11465	10,440
Community Development Block Grants / Entitlement Grants	14.218	C-11423	7,542
Passed through City of Peoria			
Community Development Block Grants / Entitlement Grants	14.218	ACON54916	6,575
Total U.S. Department of Housing and Urban Development			527,487
U.S. Department of Justice			
Passed through Boys and Girls Clubs of America			
Juvenile Mentoring Program	16.726	OJP 2015-35844	2,698
Juvenile Mentoring Program	16.726	OJP 2015-35845	3,130
Juvenile Mentoring Program	16.726	OJP 2015-35846	1,747
Juvenile Mentoring Program	16.726	OJP 2015-35847	404
Juvenile Mentoring Program	16.726	OJP 2016-40332	7,516
Juvenile Mentoring Program	16.726	OJP 2016-40333	1,980
Juvenile Mentoring Program	16.726	OJP 2016-40334	3,344
Juvenile Mentoring Program	16.726	OJP 2016-40335	8,684
Total U.S. Department of Justice			29,503
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,916,570

(1) Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries*** under programs of the federal government for the year ended August 31, 2017. The information in this 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 ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries***, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows. ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries*** did not provide federal awards to sub-recipients during the year ended August 31, 2017.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in *OMB Circular A-122, Cost Principles for Non-profit Organizations*, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries*** has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

(3) Loans outstanding

Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries has loans outstanding for various maintenance and improvement projects at branch locations which are funded through Community Development Block Grants. Loans outstanding at the beginning of the year are included in the federal expenditures presented in the accompanying schedule of expenditures of federal awards. The balance of loans outstanding at August 31, 2017 consists of:

Federal Grantor/Program/Pass Through Agency	Federal CFDA Number	Pass-Through Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Passed through the City of Phoenix			
Community Development Block Grants/Entitlement Grants	14.218		
City of Phoenix		144193	$ 42,000
City of Phoenix		141741	35,700
City of Phoenix		132809	60,872
City of Phoenix		139791-0	30,519
City of Phoenix		136847-0	60,000
City of Phoenix		127427	30,600
City of Phoenix		125758	39,960
City of Phoenix		121982	20,000
City of Phoenix		122441	19,989
City of Phoenix		129690	43,920
Total loans outstanding			$ 383,560

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INDEPENDENT AUDITORS' 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

To the Board of Directors of

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

We have audited, 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, the consolidated financial statements of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries,*** which comprise the consolidated statement of financial position as of August 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** internal control. Accordingly, we do not express an opinion on the effectiveness of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Mayer Hoffman McCann P.C.

November 29, 2017

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

Report on Compliance for Each Major Federal Program

We have audited ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** major federal program for the year ended August 31, 2017. ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** compliance.

Opinion on the Major Federal Programs

In our opinion, ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries',*** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2017.

Report on Internal Control Over Compliance

Management of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** internal control over compliance.

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. 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.

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

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.

Mayer Hoffman McCann P.C.

November 29, 2017

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2016

Section I – Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued:		Unmodified
Internal control over financial reporting:		
Material weakness(es) identified?	______Yes	__X__No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	______Yes	__X__None reported
Noncompliance material to financial statements noted?	______Yes	__X__No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	______Yes	__X__No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	______Yes	__X__None reported
Type of Auditor's Report issued on compliance for major programs:		Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	______Yes	__X__No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants / Entitlement Grants

Dollar threshold used to distinguish between type A and type B programs:		$ 750,000
Auditee qualified as a low-risk auditee?	__X__Yes	______No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2016

Section II – Financial Statement Findings

None noted

Section III – Federal Awards Findings

None noted

Section IV – Status of Prior Years Findings

None noted