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

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

Period from September 1, 2018 to June 30, 2019

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METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

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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 June 30, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the period from September 1, 2018 to June 30, 2019, 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 June 30, 2019, and the changes in their net assets and their cash flows for the period from September 1, 2018 to June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary 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 September 25, 2019 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries*** adopted Financial Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in the period from September 1, 2018 to June 30, 2019. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

September 25, 2019

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2019

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 426,570
Receivables	1,505,285
Other current assets	104,974
TOTAL CURRENT ASSETS	2,036,829
ASSETS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT	
Cash and cash equivalents	545,722
Receivables	300,000
TOTAL ASSETS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT	845,722
NOTE RECEIVABLE, net of deferred gain	170,104
INVESTMENTS	3,364,904
PROPERTY AND EQUIPMENT, net	13,927,746
INTEREST IN FOUNDATION NET ASSETS	7,287,230
PROPERTY HELD FOR SALE	76,705
CASH SURRENDER VALUE OF LIFE INSURANCE	149,704
TOTAL ASSETS	$ 27,858,944

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 426,670
Accrued expenses	577,687
Deferred revenues	87,036
Current maturities of long-term debt	190,503
Other current liabilities	2,500
TOTAL CURRENT LIABILITIES	1,284,396
LONG-TERM DEBT, less current maturities	727,115
TOTAL LIABILITIES	2,011,511
NET ASSETS	
Net assets without donor restriction	16,652,795
Net assets with donor restriction	9,194,638
TOTAL NET ASSETS	25,847,433
TOTAL LIABILITIES AND NET ASSETS	$ 27,858,944

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

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Period from September 1, 2018 to June 30, 2019

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT AND REVENUES			
Contributions	$ 3,235,587	$ 1,716,428	$ 4,952,015
United Way allocations	18,441	37,652	56,093
Governmental fees and grants	1,012,664	-	1,012,664
Program service fees	1,053,655	-	1,053,655
Change in interest in Foundation net assets	(405,341)	5,500	(399,841)
Donated materials and services	528,895	-	528,895
Investment income, net	172,823	-	172,823
Gain on sale of property and equipment	13,942	-	13,942
Change in cash surrender value of life insurance	6,531	-	6,531
Net realized and unrealized investment losses	(64,365)	-	(64,365)
Insurance recoveries	17,512	-	17,512
Other	102,560	-	102,560
Total support and revenues before special events and net assets released from restrictions	5,692,904	1,759,580	7,452,484
Special events revenues	1,729,244	-	1,729,244
Less costs of direct donor benefits	(543,100)	-	(543,100)
Gross profit on special events	1,186,144	-	1,186,144
Net assets released from restrictions	1,345,990	(1,345,990)	-
TOTAL SUPPORT AND REVENUES	8,225,038	413,590	8,638,628
EXPENSES			
Personnel costs	5,852,880	-	5,852,880
Professional fees	649,768	-	649,768
Supplies	1,183,228	-	1,183,228
Occupancy	576,144	-	576,144
Insurance	161,100	-	161,100
Telephone	86,830	-	86,830
Conferences, conventions and meetings	94,797	-	94,797
Repairs and maintenance	189,389	-	189,389
Youth assistance	41,005	-	41,005
Transportation	66,499	-	66,499
Printing and publication	84,763	-	84,763
Training	51,978	-	51,978
Marketing	29,713	-	29,713
National dues	33,025	-	33,025
Postage	7,363	-	7,363
Interest	19,664	-	19,664
Depreciation	1,310,554	-	1,310,554
Other	114,827	-	114,827
TOTAL EXPENSES	10,553,527	-	10,553,527
CHANGE IN NET ASSETS	(2,328,489)	413,590	(1,914,899)
NET ASSETS, BEGINNING OF PERIOD	18,981,284	8,781,048	27,762,332
NET ASSETS, END OF PERIOD	$ 16,652,795	$ 9,194,638	$ 25,847,433

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Period from September 1, 2018 to June 30, 2019

	Social Adjustment, Development and Recreation Programs	Management and General	Fundraising	Total
Personnel costs:				
Salaries	$ 3,972,445	$ 277,008	$ 591,496	$ 4,840,949
Employee benefits	535,155	21,717	58,426	615,298
Payroll taxes	330,173	18,454	48,006	396,633
Total personnel costs	4,837,773	317,179	697,928	5,852,880
Professional fees	467,229	60,457	146,357	674,043
Supplies	1,170,711	10,826	1,691	1,183,228
Occupancy	520,274	56,145	10,628	587,047
Insurance	142,933	16,914	1,253	161,100
Telephone	67,320	17,426	2,084	86,830
Conferences, conventions and meetings	30,927	42,065	21,805	94,797
Repairs and maintenance	124,337	37,212	120,815	282,364
Youth assistance	41,005	-	-	41,005
Transportation	63,839	985	3,096	67,920
Printing and publication	48,163	5,811	100,622	154,596
Training	42,305	8,699	974	51,978
Marketing	10,421	-	362,250	372,671
National dues	33,025	-	-	33,025
Postage	202	2,406	4,755	7,363
Interest	1,038	17,645	981	19,664
Other	18,896	37,456	59,210	115,562
Total expenses before depreciation expense	7,620,398	631,226	1,534,449	9,786,073
Depreciation expense	1,280,953	22,688	6,913	1,310,554
TOTAL EXPENSES	$ 8,901,351	$ 653,914	$ 1,541,362	$ 11,096,627

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Period from September 1, 2018 to June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (1,914,899)
Adjustment to reconcile change in net assets to net cash used in operating activities:	
Depreciation	1,310,554
Unrealized loss on investments	26,959
Realized loss on investments	37,406
Amortization of gain on sale of property held for sale	(2,163)
Gain on sale of property and equipment	(11,779)
Provision for bad debts	10,900
Change in discount applied to long term receivables	(12,500)
Forgiveness of CDBG debt	(46,674)
Contributed property and equipment included in support	(303,206)
Contributions restricted to investment in property and equipment	(721,250)
Change in interest in Foundation net assets	399,841
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Receivables	551,773
Other current assets	72,360
Increase (decrease) in:	
Accounts payable	134,066
Accrued expenses	211,497
Deferred revenues	66,057
Net cash used in operating activities	(191,058)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(546,206)
Purchases of investments	(2,507,047)
Change in cash surrender value of life insurance	(6,531)
Proceeds from note receivable	4,112
Proceeds from sale of property and equipment	15,200
Proceeds from sales of investments	3,503,398
Net cash provided by investing activities	462,926
CASH FLOWS FROM FINANCING ACTIVITIES	
Collection of contributions restricted to investment in property and equipment	421,250
Proceeds from term loan	75,000
Payments on line of credit	(106,390)
Net cash provided by financing activities	389,860
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	661,728
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD	310,564
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	$ 972,292
Cash and cash equivalents	426,570
Cash restricted for investment in property and equipment	545,722
Total cash and cash equivalents and restricted cash	$ 972,292
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for interest	$ 19,665

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 17,924 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.

On November 30, 2018, the Clubs formed AZ Youthforce, LLC, with the Clubs as the sole member. AZ Youthforce, LLC was formed to provide youth with career exploration opportunities, skills development, internship opportunities, vocational training resources, college information, and summer employment opportunities.

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

Basis of presentation - In 2019, the Clubs changed its fiscal year from August 31st to June 30th and the accompanying consolidated financial statements include the ten month period from September 1, 2018 to June 30, 2019. 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 the following net assets classifications:

<u>Net assets without donor restrictions</u>
Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Clubs. These net assets may be used at the discretion of the Clubs' management and the board of directors.

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

Net assets with donor restrictions
Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Clubs or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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, BGC Managers, LLC, and AZ Youthforce, LLC. All significant intercompany transactions and accounts have been eliminated in consolidation.

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 contributions without donor restrictions or contributions with donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Restricted support, where restrictions are met in the same period as the contribution is made, is shown as support without donor restrictions.

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.

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

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.

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

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

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 the period from September 1, 2018 to June 30, 2019.

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 and changes in net assets.

Donated materials and services - Donated materials are reflected as contributions in the consolidated statement of activities and changes in net assets 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 $239,169 for the period from September 1, 2018 to June 30, 2019.

The Clubs received the following donated materials and services for the period September 1, 2018 to June 30, 2019:

	Used for	Amount
Professional services	Various	$ 6,092
Property and equipment	Program	303,206
Other	Various	219,597
		$ 528,895

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 as follows:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Occupancy	Square Footage
Information technologies	Full time equivalent
Depreciation	Square footage
Contracted services	Full time equivalent

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

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, BGC Managers, LLC, and AZ Youthforce, LLC are treated as 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 2016, 2017 and 2018 are subject to examination by the IRS, generally for the three years after they were filed. As of the date of this report, the 2019 Form 990 has not been filed.

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.

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

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 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 statement of financial position 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 period ended June 30, 2019, a non-current right of use asset of $368,000 and a corresponding current and non-current lease liability of $88,000 and $280,000, respectively, would be recorded in the accompanying consolidated statement of financial position. The estimate was calculated using the minimum future lease payments (see Note 12) assuming a discount rate of 4.50% 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 consolidated 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 adopted ASU 2016-14 in the period from September 1, 2018 to June 30, 2019.

In accordance with the amendments of this ASU, the Clubs expanded disclosures around the presentation of expenses by function and nature. Additionally, the Clubs disclosed the liquidity and availability of resources.

A summary of the beginning net asset reclassifications at September 1, 2018 driven by the adoption of ASU 2016-14 is as follows:

	ASU 2016-14 Classifications		
Net Asset Classifications	**Without Donor Restrictions**	**With Donor Restrictions**	**Total Net Assets**
As previously reported			
Unrestricted	$ 18,981,284	$ -	$ 18,981,284
Temporarily restricted	-	5,389,208	5,389,208
Permanently restricted	-	3,391,840	3,391,840
Net assets, as restated	$ 18,981,284	$ 8,781,048	$ 27,762,332

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

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 consolidated 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 have elected to adopt this standard as of the period ended June 30, 2019.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 is intended to clarify current guidance about whether a transfer of assets is a contribution or an exchange transaction. ASU 2018-08 is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The update is intended to be applied on a modified prospective basis, but retrospective application is permitted. The Clubs are currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

Subsequent events - The Clubs have evaluated events through September 25, 2019 which is the date the consolidated financial statements were available to be issued.

(2) Liquidity and availability of resources

The following represents the Clubs financial assets at June 30, 2019:

Cash and cash equivalents	$ 972,292
Receivables	1,805,285
Investments	3,364,904
Total financial assets	6,142,481
Less contractual or donor-imposed restrictions:	
Capital campaign and facilities remodel	(845,722)
Restricted for specific clubs or programs	(4,382,153)
Scholarship fund	(390,921)
Board designated net assets	(34,830)
Total financial assets available for general expenditure within the next twelve months	$ 488,855

The Clubs goal is generally to maintain financial assets to meet 60 days of cash operating expenses (approximately $1.8 million). As part of its liquidity plan, excess cash is invested in short-term investments, including asset allocation mutual funds and short-term fixed income mutual funds. The Clubs has a $300,000 line of credit available to meet cash flow needs.

(3) Receivables

Receivables consist of the following as of June 30, 2019:

United Way allocations	$	156,402
Unconditional promises to give due in less than one year		1,103,345
Grants and contracts		157,758
Event receivables		87,780
Pledges restricted to investment in property and equipment		300,000
Total receivables	$	1,805,285

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.

Pledge receivables from two donor comprise approximately 29% of total net receivables as of June 30, 2019. All receivable balances at June 30, 2019 are considered fully collectible by management and, accordingly, an allowance for doubtful account has not been provided.

(4) 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. 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.

Investments consist of the following as of June 30, 2019:

Capital appreciation mutual funds:		
Asset allocation funds	$	1,725,172
Capital preservation funds:		
Fixed income bond mutual funds-short term		1,633,731
Other capital preservation funds		6,001
Total capital preservation funds		1,639,732
Investments, net	$	3,364,904

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.

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

(5) Property and equipment

Property and equipment consist of the following as of June 30, 2019:

Cost and donated value:	
Land and land improvements	$ 1,188,134
Buildings and improvements	27,631,831
Furniture and equipment	3,900,953
Construction in progress	9,695
Total cost and donated value	32,730,613
Accumulated depreciation	(18,802,867)
Property and equipment, net	$ 13,927,746

Depreciation expense charged to operations was $1,310,554 in the period from September 1, 2018 to June 30, 2019.

Construction in progress consisted of renovations and improvements to existing facilities that had not yet been placed into service. The remaining costs of the projects are expected to be approximately $196,000 and the assets are anticipated to be placed into service in various stages through fiscal year 2020.

(6) 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 less estimated costs to sell. As of June 30, 2019, property held for sale in the accompanying consolidated statement of financial position was $76,705. No impairment charges were recorded for the period from September 1, 2018 to June 30, 2019.

(7) 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.

(7) Note receivable (continued)

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 2019		$ 4,112
Portion recognized as gain in 2019		$ 2,163

At June 30, 2019, scheduled collections of principal on the note receivable are as follows:

Years Ending June 30,	
2020	5,182
2021	353,179
Total annual payments	358,361
Less deferred gain	(188,257)
Total note receivable, net of discount	$ 170,104

(8) 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 and changes in net assets.

(9) 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 19, 2009, March 19, 2010, June 30, 2011, January 31, 2013, February 24, 2014, May 28, 2015, May 24, 2016, May 8, 2017 and November 1, 2018 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 June 30, 2019, $337,397 were outstanding under these notes.

The Clubs entered into a $1,500,000 line of credit during fiscal 2016. The line is for a period of 5 years, carries a fixed 3.50% interest rate, and is amortized over a 7-year term. The line is collateralized by securities of the Foundation. At June 30, 2019 $580,221 was outstanding under this line of credit.

During fiscal 2016, the Clubs obtained a $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 3.50% 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, 2020. Interest will be the indexed rate of the lender, which is their prime rate. The indexed rate was approximately 4.50% at June 30, 2019. No amounts are outstanding under this line of credit.

(9) Long-term debt (continued)

At June 30, 2019, estimated annual maturities of long-term debt outstanding are as follows:

Years Ending June 30,		
2020	$	190,503
2021		185,030
2022		357,579
2023		45,818
2024		33,644
Subsequent to 2024		105,044
Total annual debt maturities	$	917,618

(10) Board designated net assets without donor restrictions

The board of directors has designated portions of the net assets without donor restrictions for various purposes, including staffing, the purchase of supplies, special projects, and operating reserves. Board designations of $463,536 were released for the purposes of staffing, the purchase of supplies, special projects, and changes in operating reserves during the period from September 1, 2018 to June 30, 2019. The remaining board designated net assets totaled $34,830 as of June 30, 2019.

(11) Net assets with donor restrictions

Net assets with donor restrictions as of June 30, 2019 were as follows:

Purpose restrictions:		
Capital campaign and facilities remodel	$	845,722
Restricted for specific clubs or programs		4,382,153
Scholarship fund		390,921
Time restrictions:		
United Way		156,402
Special events		22,100
Perpetually restricted interest in Foundation net assets (Note 15)		3,397,340
Total net assets with donor restriction	$	9,194,638

Net assets released from net assets with donor restrictions during the period are as follows:

Purpose restrictions:		
Capital campaign and facilities remodel	$	253,748
Restricted for specific clubs or programs		613,602
Scholarship fund		34,868
Time restrictions:		
United Way		382,221
Special events		61,551
Total releases from net assets with donor restrictions	$	1,345,990

(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, losses, if any, from these matters are covered by insurance or are immaterial. Management believes that a resulting liability, if any, will not materially affect the consolidated financial position or results of operations.

Operating leases - The Clubs have various operating leases for equipment, which expire through fiscal 2025. Minimum future rental payments under these noncancellable operating leases are as follows:

Years Ending June 30,		
2020	$	91,675
2021		79,147
2022		78,910
2023		78,910
2024		70,545
Subsequent to 2024		14,079
Total minimum future rental payments	$	413,266

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 $80,482 in the period from September 1, 2018 to June 30, 2019.

Contractual commitment - The Clubs entered into an agreement with another organization to manage their dental clinic beginning July 1, 2019. The contractually obligated payments include monthly payments of $37,500 through June 30, 2020.

(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 the period from September 1, 2018 to June 30, 2019. Total pension expense was $150,700 for the period from September 1, 2018 to June 30, 2019.

(14) Related party transactions

The Clubs received contributions from board of director members of $925,519 in the period from September 1, 2018 to June 30, 2019. Approximately $265,364 of the amount received in the period from September 1, 2018 to June 30, 2019 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 $163,446 in the period from September 1, 2018 to June 30, 2019.

The Clubs paid dues to their national affiliate, The Boys and Girls Clubs of America, of $33,025 in the period from September 1, 2018 to June 30, 2019.

(14) Related party transactions (continued)

The Clubs recognized contributions from a related organization, Boys & Girls Clubs of Metropolitan Phoenix Foundation (the "Foundation") totaling $394,994 in the period from September 1, 2018 to June 30, 2019. As of June 30, 2019, $232,026 of this amount is included in receivables in the accompanying consolidated statement of financial position.

The Foundation reimbursed the Clubs $67,527 for operational activity costs that were conducted by staff of the Clubs during 2019. These revenues are included in the accompanying statement of activities and changes in net assets within other support and revenues. Accounts receivable from the Foundation related to reimbursement of operational activity costs was $119,257 at June 30, 2019 and is included in receivables in the accompanying consolidated statement of financial position

(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 $7,287,230 as of June 30, 2019.

Summarized financial information of the Foundation as of and for the period from September 1, 2018 to June 30, 2019 is as follows:

Total assets	$ 7,642,767
Total liabilities	$ 355,537
Net assets	
Net assets without donor restrictions	3,889,890
Net assets with perpetual donor restrictions	3,397,340
Total net assets	$ 7,287,230
Total revenue	$ 104,634
Total expense	$ 504,475
Change in Foundation net assets	$ (399,841)

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 June 30, 2019:

	Total	Level 1	Level 2	Level 3
Capital appreciation mutual funds:				
Asset allocation funds	$ 1,725,172	$ 1,725,172	$ -	$ -
Capital preservation funds:				
Fixed income bond mutual funds-short term	1,633,731	1,633,731		
Other capital preservation funds	6,001	6,001	-	-
Total capital preservation funds	1,639,732	1,639,732	-	-
Total investments at fair value	$ 3,364,904	$ 3,364,904	$ -	$ -

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 SUBSIDIARIES

We have audited the consolidated financial statements of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries*** as of and for the period from September 1, 2018 to June 30, 2019, and our report thereon dated September 25, 2019 which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 - 2. 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 22 and 23 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.

September 25, 2019

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

ADDITIONAL INFORMATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2019

A S S E T S

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	BGC Managers, LLC	AZ Youthforce LLC	Eliminations and Consolidations	Total
CURRENT ASSETS						
Cash and cash equivalents	$ 319,943	$ -	$ -	$ 106,627	$ -	$ 426,570
Receivables	1,292,701	-	-	212,584	-	1,505,285
Due from Subsidiaries	7,154,544	-	8,868		(7,163,412)	-
Other current assets	104,974	-	-	-	-	104,974
TOTAL CURRENT ASSETS	8,872,162	-	8,868	319,211	(7,163,412)	2,036,829
ASSETS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT						
Cash and cash equivalents	545,722	-	-	-	-	545,722
Investments	300,000	-	-	-	-	300,000
TOTAL ASSETS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT	845,722	-	-	-	-	845,722
NOTE RECEIVABLE, net of deferred gain	170,104	-	-	-	-	170,104
INVESTMENTS	3,364,904	-	-	-	-	3,364,904
PROPERTY AND EQUIPMENT, net	6,773,202	7,154,544	-	-	-	13,927,746
INTEREST IN FOUNDATION NET ASSETS	7,287,230	-	-	-	-	7,287,230
PROPERTY HELD FOR SALE	76,705	-	-	-	-	76,705
CASH SURRENDER VALUE OF LIFE INSURANCE	149,704	-	-	-	-	149,704
TOTAL ASSETS	$ 27,539,733	$ 7,154,544	$ 8,868	$ 319,211	$ (7,163,412)	$ 27,858,944

L I A B I L I T I E S   A N D   N E T   A S S E T S

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	BGC Managers, LLC	AZ Youthforce LLC	Eliminations and Consolidations	Total
CURRENT LIABILITIES						
Accounts payable	$ 422,982	$ -	$ -	$ 3,688	$ -	$ 426,670
Payable to Parent	-	7,154,544	8,868	-	(7,163,412)	-
Accrued expenses	558,191	-	-	19,496	-	577,687
Deferred revenues	87,036	-	-	-	-	87,036
Current maturities of long-term debt	190,503	-	-	-	-	190,503
Other current liabilities	2,500	-	-	-	-	2,500
TOTAL CURRENT LIABILITIES	1,261,212	7,154,544	8,868	23,184	(7,163,412)	1,284,396
LONG-TERM DEBT, less current maturities	727,115	-	-	-	-	727,115
TOTAL LIABILITIES	1,988,327	7,154,544	8,868	23,184	(7,163,412)	2,011,511
NET ASSETS						
Without Donor Restrictions	16,652,795	-	-	-	-	16,652,795
With Donor Restrictions	8,898,611	-	-	296,027	-	9,194,638
TOTAL NET ASSETS	25,551,406	-	-	296,027	-	25,847,433
TOTAL LIABILITIES AND NET ASSETS	$ 27,539,733	$ 7,154,544	$ 8,868	$ 319,211	$ (7,163,412)	$ 27,858,944

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

ADDITIONAL INFORMATION

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Period from September 1, 2018 to June 30, 2019

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	BGC Managers, LLC	AZ Youthforce LLC	Eliminations and Consolidations	Total
SUPPORT AND REVENUES						
Contributions	$ 4,568,337	$ -	$ -	$ 383,678	$ -	$ 4,952,015
United Way allocations	56,093	-	-	-	-	56,093
Governmental fees and grants	1,012,664	-	-	-	-	1,012,664
Program service fees	1,053,655	-	-	-	-	1,053,655
Change in interest in Foundation net assets	(399,841)	-	-	-	-	(399,841)
Donated materials and services	528,895	-	-	-	-	528,895
Investment income	172,823	-	-	-	-	172,823
Gain on sale of property and equipment	13,942	-	-	-	-	13,942
Change in cash surrender value of life insurance	6,531	-	-	-	-	6,531
Net realized and unrealized losses	(64,365)	-	-	-	-	(64,365)
Insurance recoveries	17,512	-	-	-	-	17,512
Other	88,081	311,438	14,479	-	(311,438)	102,560
Total support and revenues before special events	7,054,327	311,438	14,479	383,678	(311,438)	7,452,484
Special events revenues	1,729,244	-	-	-	-	1,729,244
Less costs of direct donor benefits	(543,100)	-	-	-	-	(543,100)
Gross profit on special events	1,186,144	-	-	-	-	1,186,144
TOTAL SUPPORT AND REVENUES	8,240,471	311,438	14,479	383,678	(311,438)	8,638,628
EXPENSES						
Personnel costs	5,792,618	-	-	60,262	-	5,852,880
Professional fees	636,810	-	-	12,958	-	649,768
Supplies	1,177,148	-	-	6,080	-	1,183,228
Occupancy	887,582	-	-	-	(311,438)	576,144
Insurance	161,100	-	-	-	-	161,100
Telephone	86,830	-	-	-	-	86,830
Conferences, conventions and meetings	94,070	-	-	727	-	94,797
Repairs and maintenance	188,414	-	-	975	-	189,389
Youth assistance	41,005	-	-	-	-	41,005
Transportation	65,044	-	-	1,455	-	66,499
Printing and publication	79,655	-	-	5,108	-	84,763
Training	51,978	-	-	-	-	51,978
Marketing	29,713	-	-	-	-	29,713
National dues	32,939	-	-	86	-	33,025
Postage	7,363	-	-	-	-	7,363
Interest	19,664	-	-	-	-	19,664
Depreciation	999,116	311,438	-	-	-	1,310,554
Other	100,348	-	14,479	-	-	114,827
TOTAL EXPENSES	10,451,397	311,438	14,479	87,651	(311,438)	10,553,527
CHANGE IN NET ASSETS	(2,210,926)	-	-	296,027	-	(1,914,899)
NET ASSETS, BEGINNING OF PERIOD	27,762,332	-	-	-	-	27,762,332
NET ASSETS, END OF PERIOD	$ 25,551,406	$ -	$ -	$ 296,027	$ -	$ 25,847,433

UNIFORM GUIDANCE
SUPPLEMENTARY REPORTS

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Period from September 1, 2018 to June 30, 2019

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	KR02-1170-ALS	$ 766,893
Passed through Arizona Department of Education			
Summer Food Service Program for Children	10.559	unknown	138,524
Total U.S. Department of Agriculture			905,417
U.S. Department of Housing and Urban Development			
Passed through City of Glendale			
Community Development Block Grants / Entitlement Grants	14.218	C18-1042	9,784
Passed through City of Phoenix			
Community Development Block Grants / Entitlement Grants	14.218	148260-0	30,000
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	148940-0	75,000
Community Development Block Grants / Entitlement Grants	14.218	129690	32,940
Community Development Block Grants / Entitlement Grants	14.218	132809	60,872
Community Development Block Grants / Entitlement Grants	14.218	125758	26,640
Community Development Block Grants / Entitlement Grants	14.218	127427	20,400
Total U.S. Department of Housing and Urban Development			423,855
U.S. Department of Justice			
Passed through Boys and Girls Clubs of America			
Juvenile Mentoring Program	16.726	OJP 2018-43297	7,259
Juvenile Mentoring Program	16.726	OJP 2018-43296	3,680
Total U.S. Department of Justice			10,939
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,340,211

See Independent Auditors' Report
See Notes to the Schedule of Expenditures of Federal Awards

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Period from September 1, 2018 to June 30, 2019

(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 period from September 1, 2018 to June 30, 2019. 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 period from September 1, 2018 to June 30, 2019.

(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 ("Office of Management and Budget") 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 June 30, 2019 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		144193-0	$ 42,000
City of Phoenix		141741	35,700
City of Phoenix		139791-0	30,519
City of Phoenix		136847-0	60,000
City of Phoenix		132809	48,698
City of Phoenix		127427	10,200
City of Phoenix		125758	13,320
City of Phoenix		129690	21,960
City of Phoenix		148940	75,000
Total loans outstanding			$ 337,397

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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 June 30, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the period from September 1, 2018 to June 30, 2019, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 25, 2019.

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.

September 25, 2019

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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 period from September 1, 2018 to June 30, 2019. ***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 federal statutes, regulations, and the terms and conditions of its federal awards 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 period from September 1, 2018 to June 30, 2019.

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.

September 25, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Period from September 1, 2018 through June 30, 2019

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
10.558	Child and Adult Care Food Program (CACFP)

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

Section II – Financial Statement Findings

None noted

Section III – Federal Awards Findings

None noted

Section IV – Status of Prior Years Findings

None