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

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

Year Ended August 31, 2018

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

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

Year Ended August 31, 2018

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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, 2018, 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, 2018, 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'*** 2017 consolidated financial statements, and we expressed an unmodified opinion on those consolidated financial statements in our report dated November 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, 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 20, 2018 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 20, 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

August 31, 2018
(with comparative totals at August 31, 2017)

A S S E T S

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 295,564	$ 1,614,512
Receivables	1,817,958	2,470,084
Other current assets	177,146	130,080
TOTAL CURRENT ASSETS	2,290,668	4,214,676
ASSETS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT		
Cash and cash equivalents	15,000	35,000
Investments	350,000	-
TOTAL ASSETS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT	365,000	35,000
RECEIVABLES, net	237,500	462,500
NOTE RECEIVABLE, net of deferred gain	172,053	174,037
INVESTMENTS	4,075,620	4,125,290
PROPERTY AND EQUIPMENT, net	14,392,309	15,171,078
INTEREST IN FOUNDATION NET ASSETS	7,687,068	7,212,161
PROPERTY HELD FOR SALE	76,896	76,896
CASH SURRENDER VALUE OF LIFE INSURANCE	143,173	137,232
TOTAL ASSETS	$ 29,440,287	$ 31,608,870

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

	2018	2017
CURRENT LIABILITIES		
Accounts payable	$ 292,604	$ 259,900
Accrued expenses	366,190	532,659
Deferred revenues	20,979	77,889
Current maturities of long-term debt	174,716	198,073
Other current liabilities	2,500	2,500
TOTAL CURRENT LIABILITIES	856,989	1,071,021
LONG-TERM DEBT, less current maturities	820,966	995,682
TOTAL LIABILITIES	1,677,955	2,066,703
NET ASSETS		
Unrestricted:		
Undesignated	18,482,918	18,159,888
Board designated	498,366	2,485,017
Total unrestricted net assets	18,981,284	20,644,905
Temporarily restricted	5,389,208	5,535,698
Permanently restricted	3,391,840	3,361,564
TOTAL NET ASSETS	27,762,332	29,542,167
TOTAL LIABILITIES AND NET ASSETS	$ 29,440,287	$ 31,608,870

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended August 31, 2018
(with comparative totals for the year ended August 31, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2018	Totals 2017
SUPPORT AND REVENUES					
Contributions	$ 4,297,056	$ 771,172	$ -	$ 5,068,228	$ 4,891,792
United Way allocations	13,649	500,971	-	514,620	618,400
Governmental fees and grants	1,434,225	-	-	1,434,225	1,577,989
Program service fees	1,228,296	-	-	1,228,296	1,000,819
Change in interest in Foundation net assets	444,631	-	30,276	474,907	569,828
Donated materials and services	577,041	-	-	577,041	771,389
Investment income	122,771	-	-	122,771	115,030
Gain on sale of property and equipment	24,316	-	-	24,316	8,856
Change in cash surrender value of life insurance	5,941	-	-	5,941	10,060
Net realized and unrealized gains (losses)	(7,341)	-	-	(7,341)	125,698
Insurance recoveries	-	-	-	-	1,573
Other	151,437	-	-	151,437	214,672
Total support and revenues before special events and net assets released from restrictions	8,292,022	1,272,143	30,276	9,594,441	9,906,106
Special events revenues	1,733,478	-	-	1,733,478	2,096,612
Less costs of direct donor benefits	(590,791)	-	-	(590,791)	(470,560)
Gross profit on special events	1,142,687	-	-	1,142,687	1,626,052
Net assets released from restrictions	1,418,633	(1,418,633)	-	-	-
TOTAL SUPPORT AND REVENUES	10,853,342	(146,490)	30,276	10,737,128	11,532,158
EXPENSES					
Programs:					
Social adjustment, development and recreation	11,075,731	-	-	11,075,731	10,803,170
Supporting services:					
Management and general	534,412	-	-	534,412	639,099
Fundraising	906,820	-	-	906,820	906,061
TOTAL EXPENSES	12,516,963	-	-	12,516,963	12,348,330
CHANGE IN NET ASSETS	(1,663,621)	(146,490)	30,276	(1,779,835)	(816,172)
NET ASSETS, BEGINNING OF YEAR	20,644,905	5,535,698	3,361,564	29,542,167	30,358,339
NET ASSETS, END OF YEAR	$ 18,981,284	$ 5,389,208	$ 3,391,840	$ 27,762,332	$ 29,542,167

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2018
(with comparative totals for the year ended August 31, 2017)

	Social Adjustment, Development and Recreation Programs	Management and General	Fundraising	Totals 2018	Totals 2017
Personnel costs:					
Salaries	$ 5,235,900	$ 251,210	$ 523,881	$ 6,010,991	$ 5,811,308
Employee benefits	602,753	25,656	56,772	685,181	644,563
Payroll taxes	439,769	16,120	35,631	491,520	487,463
Total personnel costs	6,278,422	292,986	616,284	7,187,692	6,943,334
Professional fees	372,578	45,263	105,528	523,369	568,182
Supplies	1,458,873	7,698	2,741	1,469,312	1,610,121
Occupancy	774,520	37,787	11,422	823,729	737,822
Insurance	160,612	8,875	2,749	172,236	160,650
Telephone	81,378	12,334	4,971	98,683	76,882
Conferences, conventions and meetings	34,251	26,063	23,661	83,975	65,100
Repairs and maintenance	136,243	24,086	12,867	173,196	181,483
Contribution to foundation	-	-	-	-	50,000
Youth assistance	86,169	-	-	86,169	112,845
Transportation	68,866	999	1,356	71,221	80,808
Printing and publication	27,381	3,677	39,022	70,080	47,088
Training	47,516	10,538	9,583	67,637	49,640
Marketing	-	-	4,484	4,484	3,470
National dues	30,360	-	-	30,360	30,753
Postage	1,680	1,680	2,185	5,545	7,366
Interest	9,438	13,455	4,037	26,930	32,938
Other	27,386	15,300	55,702	98,388	108,800
Total expenses before depreciation expense	9,595,673	500,741	896,592	10,993,006	10,867,282
Depreciation expense	1,480,058	33,671	10,228	1,523,957	1,481,048
TOTAL EXPENSES	$ 11,075,731	$ 534,412	$ 906,820	$ 12,516,963	$ 12,348,330

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended August 31, 2018
(with comparative totals for the year ended August 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (1,779,835)	$ (816,172)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,523,957	1,481,048
Unrealized gain on investments	(36,111)	(131,103)
Realized loss on investments	43,452	5,405
Amortization of gain on sale of property held for sale	(2,643)	(2,280)
Gain on sale of property and equipment	(21,673)	(6,576)
Provision for bad debts	2,658	4,093
Change in discount applied to long term receivables	(25,000)	(87,500)
Forgiveness of CDBG debt	(74,489)	-
Contributed property and equipment included in support	(381,158)	(565,122)
Contributed stock not liquidated before year end included in support	(51,156)	(41,324)
Contributions restricted to investment in property and equipment	(350,000)	(35,000)
Change in interest in Foundation net assets	(474,907)	(569,828)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	899,468	1,984,845
Other current assets	(47,066)	(38,671)
Increase (decrease) in:		
Accounts payable	32,704	(46)
Accrued expenses	(166,469)	137,040
Deferred revenues	(56,910)	(22,171)
Net cash provided by (used in) operating activities	(965,178)	1,296,638
CASH FLOWS FROM INVESTING ACTIVITIES		
Release of cash and cash equivalents restricted to investment in property and equipment	20,000	38,050
Purchases of property and equipment	(372,766)	(252,851)
Purchases of investments	(4,923,416)	(3,078,013)
Change in cash surrender value of life insurance	(5,941)	(10,060)
Proceeds from note receivable	4,627	4,337
Proceeds from sale of property and equipment	30,409	8,700
Proceeds from sales of investments	4,666,901	2,171,561
Net cash used in investing activities	(580,186)	(1,118,276)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted to investment in property and equipment	350,000	35,000
Proceeds from term loan	-	42,000
Payments on line of credit	(123,584)	(118,377)
Net cash provided by (used in) financing activities	226,416	(41,377)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,318,948)	136,985
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,614,512	1,477,527
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 295,564	$ 1,614,512
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 30,360	$ 32,427
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Contributed property and equipment	$ 381,158	$ 565,122
Forgiveness of CDBG debt	$ 74,489	$ 74,489
Contributed stock not liquidated before year end	$ 51,156	$ 41,324

(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 19,232 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, 2017 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 2018 or 2017.

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 $415,525 and $408,021 for the years ended August 31, 2018 and 2017, respectively.

The Clubs received the following donated materials and services:

	Used for	2018	2017
Professional services	Various	$ 779	$ 8,463
Property and equipment	Program	381,158	565,122
Other	Various	195,104	197,804
		$ 577,041	$ 771,389

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 2015, 2016 and 2017 are subject to examination by the IRS, generally for the three years after they were filed. As of the date of this report, the 2018 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 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 year ending August 31, 2018, a non-current right of use asset of $422,000 and a corresponding current and non-current lease liability of $92,000 and $330,000, respectively, would be recorded in the accompanying statement of financial position. The estimate was calculated using the minimum future lease payments (see Note 12) assuming a discount rate of 4.5% representing the Clubs’ estimated incremental borrowing rate.

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

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 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 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 November 20, 2018 which is the date the consolidated financial statements were available to be issued.

(2) Receivables

Receivables consist of the following:

	2018	2017
Current Receivables:		
United Way allocations	$ 500,971	$ 582,420
Unconditional promises to give due in less than one year	1,018,117	1,744,017
Grants and contracts	192,970	93,533
Event receivables	105,900	50,060
Other receivables	-	54
Total current receivables	1,817,958	2,470,084
Unconditional promises to give due in two to three years, net of discount of $12,500 and $37,500 as August 31, 2018 and 2017, respectively	237,500	462,500
Total receivables, net	$ 2,055,458	$ 2,932,584

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, 2018 and 2017, 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 20% and 58% of total net receivables as of August 31, 2018 and 2017, respectively. All receivable balances at August 31, 2018 and 2017 are considered fully collectible by management and, accordingly, an allowance for doubtful accounts has not been provided.

(2) Receivables (continued)

The estimated cash flows for unconditional promises to give and event receivables were discounted over the collection period using a discount rate of 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.

Investments consist of the following at August 31:

	2018	2017
Capital appreciation mutual funds:		
Asset allocation funds	$ 2,386,695	$ 2,288,368
U.S. large cap stock	-	41,331
Total capital appreciation mutual funds	2,386,695	2,329,699
Capital preservation funds:		
Fixed income bond mutual funds-short term	2,031,826	1,787,582
Money market funds	2,098	3,008
Other capital preservation funds	5,001	5,001
Total capital preservation funds	2,038,925	1,795,591
Total investments	4,425,620	4,125,290
Less: investments restricted for investment in property and equipment	(350,000)	-
Investments, net	$ 4,075,620	$ 4,125,290

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 $8,414 and $8,848 for the years ended August 31, 2018 and 2017, 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:

	2018	2017
Cost and donated value:		
Land and land improvements	$ 1,118,398	$ 1,140,097
Buildings and improvements	27,252,662	27,013,861
Furniture and equipment	3,739,404	3,321,270
Construction in progress	27,283	-
Total cost and donated value	32,137,747	31,475,228
Accumulated depreciation	(17,745,438)	(16,304,150)
Property and equipment, net	$ 14,392,309	$ 15,171,078

Depreciation expense charged to operations was $1,523,957 in 2018 and $1,481,048 for 2017.

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 $423,000 and the assets are anticipated to be placed into service in various stages through fiscal year 2019.

(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 less estimated costs to sell. As of August 31, 2018 and 2017, property held for sale in the accompanying consolidated statement of financial position was $76,896. No impairment charges were recorded for 2018 or 2017.

(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:

(6) Note receivable (continued)

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 2018		$ 4,627
Portion recognized as gain in 2018		$ 2,643

At August 31, 2018, scheduled collections of principal on the note receivable are as follows:

Years Ending August 31,	
2019	4,909
2020	5,238
2021	352,326
Total annual payments	362,473
Less deferred gain	(190,420)
Total note receivable, net of discount	$ 172,053

(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 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, 2018 and 2017, $309,071 and $383,560 were outstanding under these notes, respectively.

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 August 31, 2018 and 2017, $686,611 and $810,195 was outstanding under this line of credit, respectively.

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 3.5% 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 August 1, 2019. Interest will be the indexed rate of the lender, which is their prime rate. The indexed rate was approximately 4.5% at August 31, 2018. No amounts are outstanding under this line of credit.

(9) Board designated unrestricted assets

At August 31, 2018, estimated annual maturities of long-term debt outstanding are as follows:

Years Ending August 31,		
2019	$	174,716
2020		191,285
2021		467,216
2022		37,418
2023		45,818
Subsequent to 2023		79,229
Total annual debt maturities	$	995,682

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. Board designations of $1,986,652 and $107,699 were released for the purposes of staffing, the purchase of supplies, special projects, and changes in operating reserves during the years ended August 31, 2018 and 2017, respectively.

(10) Temporarily restricted net assets

Temporarily restricted net assets consist of:

	2018	2017
Purpose restrictions:		
Capital campaign and facilities remodel	$ 365,000	$ 35,000
Restricted for specific clubs or programs	4,054,693	4,347,139
Scholarship fund	406,992	441,602
Time restrictions:		
United Way	500,971	582,420
Special events	61,552	129,537
Total temporarily restricted net assets	$ 5,389,208	$ 5,535,698

Releases from temporarily restricted net assets consist of:

	2018	2017
Purpose restrictions:		
Capital campaign and facilities remodel	$ 20,000	$ 48,050
Restricted for specific clubs or programs	630,185	788,846
Scholarship fund	56,991	215,836
Time restrictions:		
United Way	582,420	693,305
Special events	129,037	142,963
Total releases from temporarily restricted net assets	$ 1,418,633	$ 1,889,000

(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, 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 2024. Minimum future rental payments under these noncancellable operating leases are as follows:

Years Ending August 31,	
2019	96,239
2020	86,902
2021	78,798
2022	78,798
2023	78,798
Subsequent to 2023	71,444
Total minimum future rental payments	$ 490,979

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 $93,391 and $96,461 in 2018 and 2017, 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 2018 and 2017. Total pension expense was $160,086 and $160,955 for 2018 and 2017, respectively.

(14) Related party transactions

The Clubs received contributions from board of director members of $2,526,085 in 2018 and $2,526,188 in 2017. Approximately $411,961 of the amount received in 2018 and $699,236 of the amount received in 2017 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 $175,582 in 2018 and $162,076 in 2017.

The Clubs paid dues to their national affiliate, The Boys and Girls Clubs of America, of $30,360 in 2018 and $30,753 in 2017.

The Clubs received contributions from a related organization, Boys & Girls Clubs of Metropolitan Phoenix Foundation (the “Foundation”) of $387,032 in 2018 and $384,859 in 2017 and are included in unconditional promises to give balances of $539,786 and $384,859 as of August 31, 2018 and 2017, respectively.

The Foundation reimbursed the Clubs $93,822 and $130,796 for operational activity costs that were conducted by staff of the Clubs during 2018 and 2017, 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 $70,091 and $67,895 at August 31, 2018 and 2017, respectively. These balances are included receivables at August 31, 2018 and 2017.

(14) Related party transactions (condinued)

During fiscal 2017, the Club contributed $50,000 to the Foundation. No such amounts were contributed in fiscal 2018.

(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 $7,687,068 and $7,212,161 as of August 31, 2018 and 2017, respectively.

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

	2018	2017
Total assets	$ 8,099,745	$ 7,667,835
Total liabilities	$ 412,677	$ 455,674
Net assets		
Unrestricted net assets	4,295,228	3,850,597
Temporarily restricted net assets	-	-
Permanently restricted net assets	3,391,840	3,361,564
Total net assets	$ 7,687,068	$ 7,212,161
Total revenue	$ 1,020,995	$ 1,145,274
Total expense	$ 546,088	$ 575,446

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, 2018:

	Total	Level 1	Level 2	Level 3
Capital appreciation mutual funds:				
Asset allocation funds	$ 2,386,695	$ 2,386,695	$ -	$ -
Capital preservation funds:				
Fixed income bond mutual funds-short term	2,031,826	2,031,826	-	-
Money market funds	2,098	2,098	-	-
Other capital preservation funds	5,001	5,001	-	-
Total capital preservation funds	2,038,925	2,038,925	-	-
Total investments at fair value	$ 4,425,620	$ 4,425,620	$ -	$ -

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	$ -	$ -

ADDITIONAL INFORMATION

MHM

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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 year ended August 31, 2018, and our report thereon dated November 20, 2018 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 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 20, 2018

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

ADDITIONAL INFORMATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

August 31, 2018

ASSETS

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	BGC Managers, LLC	Eliminations and Consolidations	Total
CURRENT ASSETS					
Cash and cash equivalents	$ 295,564	$ -	$ -	$ -	$ 295,564
Receivables	1,806,912	-	11,046	-	1,817,958
Due from Subsidiaries	7,477,028	-	-	(7,477,028)	-
Other current assets	177,146	-	-	-	177,146
TOTAL CURRENT ASSETS	9,756,650	-	11,046	(7,477,028)	2,290,668
ASSETS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT					
Cash and cash equivalents	15,000	-	-	-	15,000
Investments	350,000	-	-	-	350,000
TOTAL ASSETS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT	365,000	-	-	-	365,000
RECEIVABLES, net	237,500	-	-	-	237,500
NOTE RECEIVABLE, net of deferred gain	172,053	-	-	-	172,053
INVESTMENTS	4,075,620	-	-	-	4,075,620
PROPERTY AND EQUIPMENT, net	6,926,327	7,465,982	-	-	14,392,309
INTEREST IN FOUNDATION NET ASSETS	7,687,068	-	-	-	7,687,068
PROPERTY HELD FOR SALE	76,896	-	-	-	76,896
CASH SURRENDER VALUE OF LIFE INSURANCE	143,173	-	-	-	143,173
TOTAL ASSETS	$ 29,440,287	$ 7,465,982	$ 11,046	$ (7,477,028)	$ 29,440,287

LIABILITIES AND NET ASSETS

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	BGC Managers, LLC	Eliminations and Consolidations	Total
CURRENT LIABILITIES					
Accounts payable	$ 292,604	$ -	$ -	$ -	$ 292,604
Payable to Parent	-	7,465,982	11,046	(7,477,028)	-
Accrued expenses	366,190	-	-	-	366,190
Deferred revenues	20,979	-	-	-	20,979
Current maturities of long-term debt	174,716	-	-	-	174,716
Other current liabilities	2,500	-	-	-	2,500
TOTAL CURRENT LIABILITIES	856,989	7,465,982	11,046	(7,477,028)	856,989
LONG-TERM DEBT, less current maturities	820,966	-	-	-	820,966
TOTAL LIABILITIES	1,677,955	7,465,982	11,046	(7,477,028)	1,677,955
NET ASSETS					
Unrestricted:					
Undesignated	18,482,918	-	-	-	18,482,918
Board designated	498,366	-	-	-	498,366
Total unrestricted net assets	18,981,284	-	-	-	18,981,284
Temporarily restricted	5,389,208	-	-	-	5,389,208
Permanently restricted	3,391,840	-	-	-	3,391,840
TOTAL NET ASSETS	27,762,332	-	-	-	27,762,332
TOTAL LIABILITIES AND NET ASSETS	$ 29,440,287	$ 7,465,982	$ 11,046	$ (7,477,028)	$ 29,440,287

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

CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended August 31, 2018

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	BGC Managers, LLC	Eliminations and Consolidations	Total
SUPPORT AND REVENUES					
Contributions	$ 5,068,228	$ -	$ -	$ -	$ 5,068,228
United Way allocations	514,620	-	-	-	514,620
Governmental fees and grants	1,434,225	-	-	-	1,434,225
Program service fees	1,228,296	-	-	-	1,228,296
Change in interest in Foundation net assets	474,907	-	-	-	474,907
Donated materials and services	577,041	-	-	-	577,041
Investment income	122,771	-	-	-	122,771
Gain on sale of property and equipment	24,316	-	-	-	24,316
Change in cash surrender value of life insurance	5,941	-	-	-	5,941
Net realized and unrealized losses	(7,341)	-	-	-	(7,341)
Other	140,391	373,726	11,046	(373,726)	151,437
Total support and revenues before special events	9,583,395	373,726	11,046	(373,726)	9,594,441
Special events revenues	1,733,478	-	-	-	1,733,478
Less costs of direct donor benefits	(590,791)	-	-	-	(590,791)
Gross profit on special events	1,142,687	-	-	-	1,142,687
TOTAL SUPPORT AND REVENUES	10,726,082	373,726	11,046	(373,726)	10,737,128
EXPENSES					
Programs:					
Social adjustment, development and recreation	11,064,685	373,726	11,046	(373,726)	11,075,731
Supporting services:					
Management and general	534,412	-	-	-	534,412
Fundraising	906,820	-	-	-	906,820
TOTAL EXPENSES	12,505,917	373,726	11,046	(373,726)	12,516,963
CHANGE IN NET ASSETS	(1,779,835)	-	-	-	(1,779,835)
NET ASSETS, BEGINNING OF YEAR	29,542,167	-	-	-	29,542,167
NET ASSETS, END OF YEAR	$ 27,762,332	$ -	$ -	$ -	$ 27,762,332

UNIFORM GUIDANCE
SUPPLEMENTAL REPORTS

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2018

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	$ 938,457
Passed through Arizona Department of Education			
Summer Food Service Program for Children	10.559	n/a	261,047
Total U.S. Department of Agriculture			1,199,504
U.S. Department of Housing and Urban Development			
Passed through City of Phoenix			
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	43,920
Community Development Block Grants / Entitlement Grants	14.218	132809	60,872
Community Development Block Grants / Entitlement Grants	14.218	125758	39,960
Community Development Block Grants / Entitlement Grants	14.218	127427	30,600
Community Development Block Grants / Entitlement Grants	14.218	121982	20,000
Community Development Block Grants / Entitlement Grants	14.218	122441	19,989
Community Development Block Grants / Entitlement Grants	14.218	C18-0010	10,333
Total U.S. Department of Housing and Urban Development			393,893
U.S. Department of Justice			
Passed through Boys and Girls Clubs of America			
Juvenile Mentoring Program	16.726	OJP 2017-42294	6,952
Juvenile Mentoring Program	16.726	OJP 2017-42298	7,821
Juvenile Mentoring Program	16.726	OJP 2017-42295	7,821
Juvenile Mentoring Program	16.726	OJP 2017-42296	7,821
Juvenile Mentoring Program	16.726	OJP 2017-42297	7,821
Juvenile Mentoring Program	16.726	OJP 2016-40332	484
Juvenile Mentoring Program	16.726	OJP 2016-40336	6,577
Juvenile Mentoring Program	16.726	OJP 2016-40333	1,315
Juvenile Mentoring Program	16.726	OJP 2016-40334	6,656
Juvenile Mentoring Program	16.726	OJP 2016-40335	1,316
Total U.S. Department of Justice			54,584
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,647,981

(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, 2018. 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, 2018.

(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 August 31, 2018 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		132809	60,872
City of Phoenix		139791-0	30,519
City of Phoenix		136847-0	60,000
City of Phoenix		127427	20,400
City of Phoenix		125758	26,640
City of Phoenix		129690	32,940
Total loans outstanding			$ 309,071

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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, 2018, 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 20, 2018.

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 20, 2018

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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, 2018. ***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 year ended August 31, 2018.

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 20, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2018

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2018

Section II – Financial Statement Findings

None noted

Section III – Federal Awards Findings

None noted

Section IV – Status of Prior Years Findings

None