Financial Reports

BOYS & GIRLS CLUBS
OF THE EAST VALLEY

FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

Henry+Horne

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Boys & Girls Clubs of the East Valley
Tempe, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Boys & Girls Clubs of the East Valley (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of Boys & Girls Clubs of the East Valley as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018, on our consideration of Boys & Girls Clubs of the East Valley's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the East Valley's internal control over financial reporting and compliance.

Casa Grande, Arizona
November 15, 2018

FINANCIAL STATEMENTS

BOYS & GIRLS CLUBS OF THE EAST VALLEY
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 527,907	$ 510,033
Restricted cash	37,102	52,287
Grants and contracts receivable	319,437	210,839
United Way receivable	270,500	282,000
Prepaid expenses	61,508	41,386
TOTAL CURRENT ASSETS	1,216,454	1,096,545
NON-CURRENT ASSETS		
Property and equipment - net	8,182,152	8,645,907
Investments	708,751	686,444
Other assets	7,393	12,479
TOTAL NON-CURRENT ASSETS	8,898,296	9,344,830
TOTAL ASSETS	$ 10,114,750	$ 10,441,375
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 408,277	$ 602,876
Accrued liabilities	320,274	344,197
Deferred revenue	353,555	323,744
Line of credit	150,000	-
Current portion of leases payable	20,790	47,953
Current portion of notes payable	41,994	40,530
TOTAL CURRENT LIABILITIES	1,294,890	1,359,300
LONG-TERM LIABILITIES		
Leases payable	50,203	9,199
Notes payable	49,059	91,053
TOTAL LONG-TERM LIABILITIES	99,262	100,252
TOTAL LIABILITIES	1,394,152	1,459,552
NET ASSETS		
Unrestricted	766,744	586,408
Temporarily restricted	3,466,497	3,606,725
Permanently restricted	4,487,357	4,788,690
TOTAL NET ASSETS	8,720,598	8,981,823
TOTAL LIABILITIES AND NET ASSETS	$ 10,114,750	$ 10,441,375

See accompanying notes.

BOYS & GIRLS CLUBS OF THE EAST VALLEY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	Unrestricted	Temporarily	Permanently	Total
REVENUES AND OTHER SUPPORT				
Government grants and contracts	$ 2,568,256	$ 19,100	$ -	$ 2,587,356
Charter school program	1,756,044	-	-	1,756,044
Program service fees	1,383,607	-	-	1,383,607
United Way allocations	23,477	218,500	-	241,977
Contributions	518,073	22,534	-	540,607
Rental income	36,320	-	-	36,320
In-kind contributions				
Rents	1,387,524	-	-	1,387,524
Materials	42,916	-	-	42,916
Service	133,300	-	-	133,300
Miscellaneous	45,427	-	-	45,427
Total revenues and support before special events and net assets released from restrictions	7,894,944	260,134	-	8,155,078
Special event revenues	295,336	-	-	295,336
Contributions - special events	1,345,203	26,000	-	1,371,203
Less costs of direct donor benefits	(324,381)	-	-	(324,381)
Gross profit on special events	1,316,158	26,000	-	1,342,158
Total revenue and support before net assets released from restrictions	9,211,102	286,134	-	9,497,236
Net assets released from restrictions	760,922	(459,589)	(301,333)	-
TOTAL REVENUES AND OTHER SUPPORT	9,972,024	(173,455)	(301,333)	9,497,236
EXPENSES				
Boys & Girls Clubs	6,281,709	-	-	6,281,709
Mesa Arts Academy	1,744,131	-	-	1,744,131
Fundraising	1,091,013	-	-	1,091,013
Management and general	670,670	-	-	670,670
TOTAL EXPENSES	9,787,523	-	-	9,787,523
CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	184,501	(173,455)	(301,333)	(290,287)
NONOPERATING ACTIVITIES				
Gain/(loss) on disposal of assets	(20,384)	-	-	(20,384)
Investment income	16,219	33,227	-	49,446
Total revenue/(expense) from nonoperating activities	(4,165)	33,227	-	29,062
CHANGE IN NET ASSETS	180,336	(140,228)	(301,333)	(261,225)
NET ASSETS AT BEGINNING OF YEAR	586,408	3,606,725	4,788,690	8,981,823
NET ASSETS AT END OF YEAR	$ 766,744	$ 3,466,497	$ 4,487,357	$ 8,720,598

See accompanying notes.

BOYS & GIRLS CLUBS OF THE EAST VALLEY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	Unrestricted	Temporarily	Permanently	Total
REVENUES AND OTHER SUPPORT				
Government grants and contracts	$ 2,306,507	$ -	$ -	$ 2,306,507
Charter school program	1,696,752	-	-	1,696,752
Program service fees	1,205,812	-	-	1,205,812
United Way allocations	27,883	282,000	-	309,883
Contributions	658,573	34,000	-	692,573
Rental income	26,948	-	-	26,948
In-kind contributions				
Rents	1,381,524	-	-	1,381,524
Materials	24,700	-	-	24,700
Service	3,000	-	-	3,000
Miscellaneous	25,453	-	-	25,453
Total revenues and support before special events and net assets released from restrictions	7,357,152	316,000	-	7,673,152
Special event revenues	248,598	-	-	248,598
Contributions - special events	1,396,154	109,715	-	1,505,869
Less costs of direct donor benefits	(300,527)	-	-	(300,527)
Gross profit on special events	1,344,225	109,715	-	1,453,940
Total revenue and support before net assets released from restrictions	8,701,377	425,715	-	9,127,092
Net assets released from restrictions	673,102	(391,448)	(281,654)	-
TOTAL REVENUES AND OTHER SUPPORT	9,374,479	34,267	(281,654)	9,127,092
EXPENSES				
Boys & Girls Clubs	6,313,262	-	-	6,313,262
Mesa Arts Academy	1,686,226	-	-	1,686,226
Fundraising	881,316	-	-	881,316
Management and general	673,191	-	-	673,191
TOTAL EXPENSES	9,553,995	-	-	9,553,995
CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	(179,516)	34,267	(281,654)	(426,903)
NONOPERATING ACTIVITIES				
Investment income	36,236	14,179	-	50,415
CHANGE IN NET ASSETS	(143,280)	48,446	(281,654)	(376,488)
NET ASSETS AT BEGINNING OF YEAR	729,688	3,558,279	5,070,344	9,358,311
NET ASSETS AT END OF YEAR	$ 586,408	$ 3,606,725	$ 4,788,690	$ 8,981,823

See accompanying notes.

BOYS & GIRLS CLUBS OF THE EAST VALLEY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	Boys & Girls Clubs	Mesa Arts Academy	Fundraising
Personnel expenses	$ 2,881,604	$ 1,387,617	$ 596,990
Professional services and subcontracts	157,521	75,552	25,475
In-kind contributions, services and materials	1,499,743	-	15,708
Supplies	41,011	121,882	3,683
Program service expense	92,221	114,967	324,381
Telecommunications	40,993	-	5,146
Postage and shipping	269	-	1,604
Occupancy	704,724	36,016	17,016
Equipment rental and repair	43,722	-	16,342
Depreciation and amortization	555,032	-	16,173
Printing and publications	13,273	577	7,894
Vehicle costs	68,824	821	13,827
Training, conferences and meetings	44,339	6,636	28,666
Membership dues	24,195	63	9,380
Specific assistance to individuals	59,506	-	1,995
Interest, bank charges and miscellaneous	54,732	-	6,733
TOTAL FUNCTIONAL EXPENSES	6,281,709	1,744,131	1,091,013
Amounts reported in total support and other revenue on the statement of activities:			
Direct benefit to donors	-	-	-
TOTAL EXPENSES	$ 6,281,709	$ 1,744,131	$ 1,091,013

BOYS & GIRLS CLUBS OF THE EAST VALLEY
STATEMENT OF FUNCTIONAL EXPENSES (Continued)
Year Ended June 30, 2018

	Management and General	Direct Benefit to Donors	Total
Personnel expenses	$ 513,077	$ -	$ 5,379,288
Professional services and subcontracts	22,478	-	281,026
In-kind contributions, services and materials	18,519	-	1,533,970
Supplies	15,623	-	182,199
Program service expense	-	324,381	855,950
Telecommunications	5,320	-	51,459
Postage and shipping	2,309	-	4,182
Occupancy	17,015	-	774,771
Equipment rental and repair	5,531	-	65,595
Depreciation and amortization	50,971	-	622,176
Printing and publications	375	-	22,119
Vehicle costs	3,882	-	87,354
Training, conferences and meetings	4,995	-	84,636
Membership dues	3,951	-	37,589
Specific assistance to individuals	-	-	61,501
Interest, bank charges and miscellaneous	6,624	-	68,089
TOTAL FUNCTIONAL EXPENSES	670,670	324,381	10,111,904
Amounts reported in total support and other revenue on the statement of activities:			
Direct benefit to donors	-	(324,381)	(324,381)
TOTAL EXPENSES	$ 670,670	$ -	$ 9,787,523

See accompanying notes.

BOYS & GIRLS CLUBS OF THE EAST VALLEY
STATEMENT OF FUNCTIONAL EXPENSES (Continued)
Year Ended June 30, 2017

	Boys & Girls Clubs	Mesa Arts Academy	Fundraising
Personnel expenses	$ 2,807,265	$ 1,325,423	$ 442,082
Professional services and subcontracts	291,367	36,019	31,843
In-kind contributions, services and materials	1,403,024	-	6,200
Supplies	91,353	155,096	3,394
Program service expense	98,772	131,320	300,527
Telecommunications	41,956	-	5,547
Postage and shipping	505	-	1,681
Occupancy	713,602	29,426	18,239
Equipment rental and repair	29,303	-	3,632
Depreciation and amortization	579,757	-	18,528
Printing and publications	17,667	-	2,429
Vehicle costs	51,006	2,105	11,604
Training, conferences and meetings	43,084	6,305	13,705
Membership dues	25,614	532	8,970
Educational awards	58,456	-	-
Interest, bank charges and miscellaneous	60,531	-	12,935
TOTAL FUNCTIONAL EXPENSES	6,313,262	1,686,226	881,316
Amounts reported in total support and other revenue on the statement of activities:			
Direct benefit to donors	-	-	-
TOTAL EXPENSES	$ 6,313,262	$ 1,686,226	$ 881,316

BOYS & GIRLS CLUBS OF THE EAST VALLEY
STATEMENT OF FUNCTIONAL EXPENSES (Concluded)
Year Ended June 30, 2017

	Management and General	Direct Benefit to Donors	Total
Personnel expenses	$ 509,707	$ -	$ 5,084,477
Professional services and subcontracts	30,198	-	389,427
In-kind contributions, services and materials	-	-	1,409,224
Supplies	11,229	-	261,072
Program service expense	-	300,527	831,146
Telecommunications	5,022	-	52,525
Postage and shipping	3,494	-	5,680
Occupancy	18,075	-	779,342
Equipment rental and repair	3,632	-	36,567
Depreciation and amortization	69,694	-	667,979
Printing and publications	1,465	-	21,561
Vehicle costs	4,171	-	68,886
Training, conferences and meetings	3,857	-	66,951
Membership dues	4,749	-	39,865
Educational awards	-	-	58,456
Interest, bank charges and miscellaneous	7,898	-	81,364
TOTAL FUNCTIONAL EXPENSES	673,191	300,527	9,854,522
Amounts reported in total support and other revenue on the statement of activities:			
Direct benefit to donors	-	(300,527)	(300,527)
TOTAL EXPENSES	$ 673,191	$ -	$ 9,553,995

BOYS & GIRLS CLUBS OF THE EAST VALLEY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (261,225)	$ (376,488)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	622,176	667,979
Loss on disposal of property	20,384	3,019
Realized/unrealized gain on investments	(35,076)	(35,934)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Grants, contracts, and United Way receivables	(97,098)	41,128
Prepaid expenses and other assets	(15,036)	(7,360)
Increase (decrease) in:		
Accounts payable	(194,599)	(102,214)
Accrued liabilities	(23,923)	23,018
Deferred revenues	29,811	155,440
Net cash provided by operating activities	45,414	368,588
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	98,183	49,442
Purchases of investments	(85,414)	(40,291)
Purchases of property and equipment	(178,805)	(237,166)
Net cash used by investing activities	(166,036)	(228,015)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan	64,585	150,000
Proceeds from line of credit	750,000	635,000
Payments on long-term debt	(40,530)	(32,667)
Payments on line of credit	(600,000)	(735,000)
Payments on obligations under capital lease	(50,744)	(52,557)
Net cash used by financing activities	123,311	(35,224)
NET INCREASE (DECREASE) IN CASH	2,689	105,349
CASH BEGINNING OF YEAR	562,320	456,971
CASH END OF YEAR	$ 565,009	$ 562,320
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF FINANCIAL POSITION:		
Cash and cash equivalents	$ 527,907	$ 510,033
Restricted cash	37,102	52,287
	$ 565,009	$ 562,320
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 31,875	$ 42,300
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired under capital lease	$ 64,585	$ -

See accompanying notes.

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NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Boys & Girls Clubs of the East Valley (the Club), an Arizona nonprofit corporation, is a community based organization that provides recreational and educational programs for youth and teens that encourage the members, through personal and social development, to become positive, successful and productive citizens. The Club serves the communities of Apache Junction, Guadalupe, Mesa, Tempe, Gilbert, Chandler, and the Gila River Indian Community in Arizona, and is affiliated with the Boys & Girls Clubs of America, a national organization.

The Club operates the Mesa Arts Academy (the Academy); a charter school directed by the Club. The Club has a stated mission for the Academy to provide an excellent basic education for students in grades K through 8 through the use of an arts-based curriculum which provides a continuum of education using the mediums of art, drama, dance, music, and other activities. The Academy is located at the Grant Woods Branch-Mesa location and has full access to all Club facilities and equipment, including a computer center.

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America. Under these principles, the Club is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents include all cash on hand, bank accounts and highly liquid investments with original maturity dates of three months or less. Cash and money market funds held in investment accounts are included as investments instead of cash.

Grants and Contracts Receivable

Grants and contracts receivable are due from local organizations and governmental entities and are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance, if needed, based on its 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 credit to grants and contracts receivable. At June 30, 2018 and 2017 all receivables were considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

The Club capitalizes all expenditures in excess of $3,500 for property and equipment at cost. Contributed property and equipment is recorded at fair value at the date of donation. Depreciation, which includes the amortization of assets recorded under capital leases, is provided on the straight-line method over their estimated useful lives. Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

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

Investments and Fair Value Measurements

Generally accepted accounting principles established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements and Investments (Continued)

The three levels of the fair value hierarchy under generally accepted accounting principles are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Club has the ability to access.

Level 2 Inputs to the valuation methodology include:

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

If the asset or liability has a specified term (contractual term), the Level 2 input must be observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect the Club's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments are recorded at fair market value as determined by quoted market prices (all Level 1 measurements). Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the change in unrestricted net assets in the accompanying statements of activities unless the income or loss is restricted by donor or law.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks and Uncertainties

The Organization may invest in various types of investments that are exposed to various risks, such as interest rate, market and credit risks. Due to the levels of risk associated with investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amount reported in the statements of activities.

Endowment Fund

The Club's endowment fund was established to aid in the scholarship funding for club-members. The endowment fund is a donor-restricted fund and is overseen by the Endowment Committee. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Club follows Arizona's Management of Charitable Funds Act (MCFA) and its own governing documents. MCFA requires the preservation of endowment funds. When a donor's intent is not expressed, MCFA directs the Organization to spend an amount that is prudent, consistent with the purposes of the fund, relevant economic factors and the donor's intent that the fund continue in perpetuity.

The Club classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Club in a manner consistent with the standard of prudence prescribed by MCFA. In accordance with MCFA, the Club considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) the Club's other resources, and (7) the Club's investment policies.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Fund (Continued)

Investment Return Objectives, Risk Parameters and Strategies - The Club has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix that is intended to result in a consistent inflation-protected rate of return averaging at least an amount equal to the Consumer Price Index plus 5% compounded annually measured over a three to five year period.

Spending Policy - The Club has a formal spending policy for endowment funds with a maximum spending rate of 4 percent. The Club requests funds from the Endowment for scholarship needs of club members. The amounts appropriated for scholarship are approved by the board.

Contributions

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 existence and/or 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 statement of activities as net assets released from restrictions. Restricted support, where restrictions are met in the same period as the donation is made, is shown as additions to restricted net assets and released.

Donated Materials and Services

Donated materials and donated land are reflected as contributions in the accompanying financial statements at their estimated fair values at the date of receipt. Donated services are recognized as contributions in accordance with generally accepted accounting principles 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 accompanying financial statements for certain donated volunteer services because they do not qualify for recording under the guidelines of generally accepted accounting principles; however, a substantial number of volunteers have donated significant amounts of their time in the Club's program services and fundraising campaigns . The Club estimates the fair value of contributed services during the year that are not reflected in the accompanying financial statements to be $231,004 for 2018 and $377,300 for 2017.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Events Revenue

The Club conducts 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 Club. The direct costs of the special events, which ultimately benefit the donor rather than the Club, are recorded as costs of direct donor benefits in the accompanying statement of activities. All proceeds received in excess of the direct costs are recorded as gross profit on special events in the accompanying statement of activities.

Functional Expenses

Expenses are charged to program services, management and general, and fundraising categories based on direct expenditures incurred. Expenditures not directly chargeable are generally allocated based on personnel activity.

Income Taxes

The Club qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and, therefore, there is no provision for income taxes. In addition, the Club qualifies for the charitable contribution deduction under Section 170 of the code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

The Club recognizes uncertainty in income taxes in the financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of June 30, 2018 and 2017, the Club had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Club recognizes interest and penalties associated with income tax in general and administrative expenses. During the years ended June 30, 2018 and 2017, the Club did not have any income tax related interest and penalties expense.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Date of Management's Review

In preparing these financial statements, the Club has evaluated events and transactions for potential recognition or disclosure through November 15, 2018, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATIONS OF CREDIT RISK

Financial instruments that subject the Club to potential concentrations of credit risk consist principally of cash and cash equivalents and receivables. The Club maintains its cash in several bank accounts, which at times may exceed federally insured limits. The Club has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on its cash balances. The United Way receivable represents approximately 46% and 57% of the total receivables for the years ended June 30, 2018 and 2017, respectively. Concentration of credit risk with respect to this receivable is limited due to the Club's collection history with United Way.

Included in cash on the accompanying statements of financial position for the years ended June 30, 2018 and 2017 is $37,102 and $52,287, respectively, which are funds held for the Mesa Arts Academy Parent Teacher Organization (PTO) and various other not for profit entities. These funds belong to the entities and therefore a corresponding liability has been recorded and is included in accounts payable.

NOTE 3 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments with readily determinable fair values are measured at fair value in the statements of financial position as determined by quoted market prices in active markets. The following is a summary of these assets measured at fair value on a recurring basis at June 30, 2018:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	$ 37,805	$ -	$ -	$ 37,805
Common stocks	228,344	-	-	228,344
Mutual funds	442,602	-	-	442,602
Total Investments	$ 708,751	$ -	$ -	$ 708,751

NOTE 3 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following is a summary of these assets measured at fair value on a recurring basis at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	$ 26,683	$ -	$ -	$ 26,683
Common stocks	239,911	-	-	239,911
Mutual funds	419,850	-	-	419,850
Total Investments	$ 686,444	$ -	$ -	$ 686,444

The following schedule summarizes the investment return for the years ended June 30, 2018 and 2017:

	2018	2017
Interest and dividend income	$ 14,370	$ 14,481
Net realized and unrealized gains	35,076	35,934
	$ 49,446	$ 50,415

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2018	2017
Land	$ 2,725,000	$ 2,725,000
Buildings and improvements	7,256,734	7,256,734
Leasehold improvements	2,727,064	2,752,754
Furniture and equipment	2,483,232	2,486,530
Vehicles	898,589	788,589
Equipment held under capital leases	96,580	221,995
Total cost or donated value	16,187,199	16,231,602
Accumulated depreciation and amortization	(8,005,047)	(7,585,695)
Net property and equipment	$ 8,182,152	$ 8,645,907

NOTE 4 PROPERTY AND EQUIPMENT (Continued)

Depreciation and amortization expense charged to operations was $622,176 and $667,979 for the years ending June 30, 2018 and 2017, respectively. The assets and liabilities under capital leases are recorded at the fair market value of the leased equipment. The value of the leased equipment was $96,580 and $221,995 at June 30, 2018 and 2017, respectively. The assets are amortized over the lease term. Amortization of equipment held under capital lease is included in depreciation and amortization expense. Accumulated depreciation and amortization above includes $25,626 and $190,165 of accumulated amortization on equipment held under capital leases at June 30, 2018 and 2017, respectively.

NOTE 5 NOTES AND LEASES PAYABLE

The Club leases certain office equipment under capital leases. The leases expire at various times through March 2023 and bear interest at 6% to 8.5%. Future minimum lease payments and maturities under the capital lease obligations at June 30, 2018 are as follows:

Years Ending June 30,	Minimum Lease Payment	Interest	Net Minimum Lease Payment
2019	$ 25,932	$ 5,142	$ 20,790
2020	14,988	2,682	12,306
2021	14,988	1,923	13,065
2022	14,988	1,117	13,871
2023	11,237	276	10,961
Total	$ 82,133	$ 11,140	$ 70,993

At June 30, 2018, notes payable consists of the following:

- Note payable agreement in the amount of $150,000 bearing interest at 3.5%. Principal and interest payments of $3,353 are due monthly through the maturity date of September 2020. Per this note agreement, the Club has agreed to maintain certain financial ratios and adhere to other loan covenants.

- Non-interest bearing note collateralized by a vehicle. Payments of $365 are due monthly through the maturity date of January 2020.

NOTE 5 NOTES AND LEASES PAYABLE (Continued)

Future minimum payments and maturities under the note at June 30, 2018 are as follows:

Years Ending June 30,	Notes Payable
2019	$ 41,994
2020	41,305
2021	7,754
Total	91,053
Less current portion	41,994
Total long-term	$ 49,059

NOTE 6 LINE OF CREDIT

The Club has a $500,000 operating line of credit with a bank, with interest payable at LIBOR rate plus 4.19% with no maturity date. At June 30, 2018 there was an outstanding balance of $150,000 and at June 30, 2017 there was no outstanding balance on this line of credit agreement.

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2018 and 2017:

	2018	2017
Portion of permanent endowment funds subject to restrictions under MCFA	$ 169,386	$ 141,054
United Way contributions	218,500	282,000
Capital campaign	148,376	148,376
Promises to give and foundation grants receivable	117,350	184,013
Property and equipment	2,773,125	2,789,855
Scholarships	39,760	61,427
Total temporarily restricted net assets	$ 3,466,497	$ 3,606,725

United Way contributions, promises to give, and foundation grants receivable are time-restricted donations. The portion of the Club's endowment fund subject to restrictions under MCFA are purpose restricted for scholarships. Property and equipment include a restriction on the use of the assets.

NOTE 8 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following at June 30, 2018 and 2017:

	2018	2017
Property and equipment	$ 3,982,814	$ 4,284,147
Endowment fund principal-operations	61,000	61,000
Endowment fund principal-scholarships	443,543	443,543
Total permanently restricted net assets	$ 4,487,357	$ 4,788,690

Permanently restricted property and equipment reflects the net book value of buildings and improvements which are available for use by the Club only in its programs. These facilities are available for use indefinitely or under long-term leases with various cities. The facilities were primarily constructed with funds from capital fundraising campaigns and in-kind contributions.

The facilities are on land owned by the various cities and would revert to the cities if the Club ceased to utilize the property in its programs. The Club may not sell or otherwise transfer these assets. The annual depreciation on these assets is reflected as an increase in unrestricted net assets and a decrease in permanently restricted net assets.

The donors of amounts included in the endowment fund have stipulated that the principal is to be maintained in perpetuity. A portion of the earnings on this fund is restricted to use as scholarships for qualifying Club members; the rest is unrestricted.

NOTE 9 ENDOWMENT FUNDS

Endowment funds include funds restricted in perpetuity by the donors. Endowment net asset composition by type of fund as of June 30 is as follows:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated	$ -	$ 169,386	$ 504,543	$ 673,929

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated	$ -	$ 141,054	$ 504,543	$ 645,597

NOTE 9 ENDOWMENT FUNDS (Continued)

Changes in endowment funds for the years ended June 30 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2016	$ -	$ 131,738	$ 504,543	$ 636,281
Interest and dividends	-	10,470	-	10,470
Realized and unrealized gain	-	3,709	-	3,709
Investment fees		(4,863)		(4,863)
Balance at June 30, 2017	-	141,054	504,543	645,597
Interest and dividends	-	10,059	-	10,059
Realized and unrealized gain	-	23,167	-	23,167
Investment fees		(4,894)		(4,894)
Balance at June 30, 2018	$ -	$ 169,386	$ 504,543	$ 673,929

NOTE 10 PENSION PLAN

The Club has a contributory defined contribution pension plan for all employees who meet specified age and service requirements. The plan is administered by Mutual of America. The Club makes annual contributions in the amount of 5% of eligible salaries. Total pension expense was $120,414 and $133,493 for the years ended June 30, 2018 and 2017, respectively.

NOTE 11 TAX-DEFERRED ANNUITY PLAN

In December 1995, the Club established a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time employees of the Club. The Club makes no contributions to the plan. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code.

NOTE 12 OPERATING LEASES

The Club leases its Tempe facilities from the City of Tempe for $1 per year under a lease agreement that expires in 2018. The Club may extend the lease for an additional five-year term, with the final extension expiring in 2023.

The Club leases its Chandler facility from the City of Chandler for $1 per year under a twenty-year lease expiring in 2029.

NOTE 12 OPERATING LEASES (Continued)

The Club utilizes facilities in the Gila River Indian Community at no fee to the Clubs. The lease is renewed annually.

The Club leases its Guadalupe facilities from the Town of Guadalupe for $1 per year under a thirty-year lease expiring in 2030. The Club may extend the lease for one additional ten-year term. The Club financed a portion of the construction of the facilities in which the Town of Guadalupe acquired ownership.

The Club leased its Queen Creek facility from the Town of Queen Creek for $0. The lease term expires June 30, 2019.

The estimated fair rental values of the above facilities that exceed the amount paid are reported as in-kind contributions and expenses in the accompanying financial statements.

The Club leases its administrative offices under an operating lease for $5,030 per month, expiring in March 2020. The lease does not provide for renewal options, however, in the normal course of business, operating leases are generally renewed or replaced by other leases. Rent expense for these leases were $61,718 and $56,575 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments (excluding in-kind rent) under operating leases that have remaining terms in excess of one year as of June 30, 2018 are as follows:

2019	$	60,360
2020		45,270
	$	105,630

REPORT ON INTERNAL CONTROL AND COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S 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*

Board of Directors
Boys & Girls Clubs of the East Valley
Tempe, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Boys & Girls Clubs of the East Valley (the Club), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 15, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Boys & Girls Clubs of the East Valley's 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Club's internal control. Accordingly, we do not express an opinion on the effectiveness of Boys & Girls Clubs of the East Valley's 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 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 the Boys & Girls Clubs of the East Valley's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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.

Casa Grande, Arizona
November 15, 2018