BOYS & GIRLS CLUBS OF THE VALLEY, INC.

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

Period from Inception (January 1, 2020) to June 30, 2020

BOYS & GIRLS CLUBS OF THE VALLEY, INC.

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

Period from Inception (January 1, 2020) to June 30, 2020

CONTENTS

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

BOYS & GIRLS CLUBS OF THE VALLEY, INC.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ***Boys & Girls Clubs of the Valley, Inc.*** which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the period from inception (January 1, 2020) to June 30, 2020, 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 the Valley, Inc.*** as of June 30, 2020, and the changes in their net assets and their cash flows for the period from inception (January 1, 2020) to June 30, 2020 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2020 on our consideration of ***Boys & Girls Clubs of the Valley, Inc.'s*** 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 the Valley, Inc.'s*** internal control over financial reporting and compliance.

Merger

As discussed in Note 1 to the consolidated financial statements, on January 1, 2020, *Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries* merged with Boys & Girls Clubs of the East Valley. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

December 29, 2020

BOYS & GIRLS CLUBS OF THE VALLEY, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2020

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 7,668,465
Receivables	4,221,891
Other current assets	129,815
TOTAL CURRENT ASSETS	12,020,171
ASSETS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT	
Cash and cash equivalents	328,586
Receivables	400,000
TOTAL ASSETS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT	728,586
INVESTMENTS	3,002,606
PROPERTY AND EQUIPMENT, net	20,459,416
INTEREST IN FOUNDATION NET ASSETS	7,670,963
CASH SURRENDER VALUE OF LIFE INSURANCE	154,001
UNAMORTIZED DONATED LEASE RECEIVABLE, net of unamortized discount of $781,186	5,470,831
OTHER ASSETS	37,900
TOTAL ASSETS	$ 49,544,474

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 837,471
Accrued expenses	997,696
Deferred revenues	151,486
Current maturities of paycheck protection loan	1,061,841
Current maturities of long-term debt	188,090
Current maturities of capital leases	14,757
TOTAL CURRENT LIABILITIES	3,251,341
PAYCHECK PROTECTION LOAN, less current maturities	1,352,059
LONG-TERM DEBT, less current maturities	584,386
CAPITAL LEASE OBLIGATION, less current maturities	33,599
TOTAL LIABILITIES	5,221,385
NET ASSETS	
Net assets without donor restriction	27,116,022
Net assets with donor restriction	17,207,067
TOTAL NET ASSETS	44,323,089
TOTAL LIABILITIES AND NET ASSETS	$ 49,544,474

See Notes to Consolidated Financial Statements

BOYS & GIRLS CLUBS OF THE VALLEY, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Period from Inception (January 1, 2020) to June 30, 2020

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT AND REVENUES			
Contributions and grants	$ 12,614,783	$ 859,036	$ 13,473,819
Governmental fees	1,036,913	-	1,036,913
Program service fees	939,724	-	939,724
Change in interest in Foundation net assets	(884,889)	-	(884,889)
Donated facilities, materials and services	262,133	4,272,233	4,534,366
Investment income, net	23,018	-	23,018
Gain on sale of property and equipment	160,495	-	160,495
Change in cash surrender value of life insurance	(3,993)	-	(3,993)
Net realized and unrealized investment losses	(87,742)	-	(87,742)
Insurance recoveries	1,000	-	1,000
Other	79,751	-	79,751
Total support and revenues before special events and net assets released from restrictions	14,141,193	5,131,269	19,272,462
Special events revenues	1,389,282	-	1,389,282
Less costs of direct donor benefits	(437,224)	-	(437,224)
Gross profit on special events	952,058	-	952,058
Change in donor intent on restricted net assets	1,140,390	(1,140,390)	-
Net assets released from restrictions	2,251,989	(2,251,989)	-
TOTAL SUPPORT AND REVENUES	18,485,630	1,738,890	20,224,520
EXPENSES			
Personnel costs	6,642,583	-	6,642,583
Professional fees	538,311	-	538,311
Supplies	843,221	-	843,221
Occupancy	1,375,613	-	1,375,613
Insurance	188,497	-	188,497
Telephone	82,474	-	82,474
Conferences, conventions and meetings	53,537	-	53,537
Repairs and maintenance	214,205	-	214,205
Youth assistance	62,752	-	62,752
Transportation	51,017	-	51,017
Public relations	58,461	-	58,461
Printing	10,294	-	10,294
Training	7,164	-	7,164
National dues	23,183	-	23,183
Professional dues	34,373	-	34,373
Postage	2,974	-	2,974
Interest	16,153	-	16,153
Depreciation	1,120,099	-	1,120,099
Bank fees	60,093	-	60,093
Other	25,630	-	25,630
TOTAL EXPENSES	11,410,634	-	11,410,634
CHANGE IN NET ASSETS	7,074,996	1,738,890	8,813,886
NET ASSETS, BEGINNING OF PERIOD	20,041,026	15,468,177	35,509,203
NET ASSETS, END OF PERIOD	$ 27,116,022	$ 17,207,067	$ 44,323,089

BOYS & GIRLS CLUBS OF THE VALLEY, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Period from Inception (January 1, 2020) to June 30, 2020

	Social Adjustment, Development and Recreation Programs	Management and General	Fundraising	Total
Personnel costs:				
Salaries	$ 4,720,759	$ 301,951	$ 580,060	$ 5,602,770
Employee benefits	482,326	40,979	73,439	596,744
Payroll taxes	364,377	29,500	49,192	443,069
Total personnel costs	5,567,462	372,430	702,691	6,642,583
Professional fees	401,235	66,981	76,048	544,264
Supplies	832,224	6,932	4,065	843,221
Occupancy	1,285,680	86,143	3,790	1,375,613
Insurance	199,193	(10,044)	(652)	188,497
Telephone	60,659	20,103	1,712	82,474
Conferences, conventions and meetings	37,254	10,086	6,197	53,537
Repairs and maintenance	148,737	24,109	113,936	286,782
Youth assistance	62,752	-	-	62,752
Transportation	48,818	718	1,481	51,017
Public relations	22,265	6,757	56,331	85,353
Printing	8,804	1,064	4,408	14,276
Training	6,757	183	224	7,164
National dues	18,477	3,547	1,159	23,183
Professional dues	7,370	25,015	1,988	34,373
Postage	972	801	1,201	2,974
Interest	3,023	12,368	762	16,153
Bank fees	19,180	16,574	24,339	60,093
Other	4,825	19,284	329,341	353,450
Total expenses before depreciation expense	8,735,687	663,051	1,329,021	10,727,759
Depreciation expense	1,084,141	33,714	2,244	1,120,099
TOTAL EXPENSES	$ 9,819,828	$ 696,765	$ 1,331,265	$ 11,847,858

See Notes to Consolidated Financial Statements

BOYS & GIRLS CLUBS OF THE VALLEY, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

Period from Inception (January 1, 2020) to June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 8,813,886
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,120,099
Unrealized loss on investments	52,352
Realized loss on investments	35,390
Amortization of donated lease receivable	497,374
Gain on sale of property	(160,495)
Donated land and space leases	(4,300,622)
Contributed property and equipment included in support	(28,419)
Contributions restricted to investment in property and equipment	(160,000)
Change in interest in Foundation net assets	885,496
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Receivables	(2,441,163)
Other assets	9,772
Increase (decrease) in:	
Accounts payable	(41,871)
Accrued expenses	121,001
Deferred revenues	(154,229)
Net cash provided by operating activities	4,248,571
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(60,938)
Purchases of investments	(1,959,123)
Change in cash surrender value of life insurance	3,993
Proceeds from sale of property held for sale	191,000
Proceeds from sales of investments	1,958,865
Net cash provided by investing activities	133,797
CASH FLOWS FROM FINANCING ACTIVITIES	
Collection of contributions restricted to investment in property and equipment	10,000
Proceeds from paycheck protection loan	2,413,900
Payments on term loan	(66,619)
Payments on capital lease obligations	(6,883)
Payments on line of credit	(370,000)
Net cash provided by financing activities	1,980,398
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	6,362,766
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD	1,634,285
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	$ 7,997,051
Cash and cash equivalents	7,668,465
Cash restricted for investment in property and equipment	328,586
Total cash and cash equivalents and restricted cash	$ 7,997,051
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for interest	$ 16,153
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:	
Purchases of property and equipment in accounts payable	$ 91,464

See Notes to Consolidated Financial Statements

(1) Clubs operations and summary of significant accounting policies

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

On January 1, 2020 (inception), Boys & Girls Clubs of Metropolitan Phoenix, Inc. ("Metro Phoenix") and Boys & Girls Clubs of the East Valley ("East Valley") entered into an Agreement and Plan of Merger whereby the Metro Phoenix and East Valley combined their resources into a single organization named Boys & Girls Clubs of East Valley – Metro Phoenix, Inc., which was renamed to Boys & Girls Clubs of the Valley, Inc. in March 2020. The Board of Directors of both Metro Phoenix and East Valley ceded control and the two organization merged together under the "carryover method" pursuant to FASB ASC 958-805 effective January 1, 2020. Applying the carryover method requires combining the assets and liabilities recognized in the separate financial statements of the merging entities as of the merger date. The assets and liabilities of Metro Phoenix and East Valley were combined, at their carrying values, as of January 1, 2020. All intra-entity transactions were eliminated.

The Clubs provide a safe place for youth in the Phoenix metropolitan and surrounding areas, 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 15,000 area children ages 6 to 18.

All of the programs and activities are designed to help young people have a safe place to learn, grow and to participate in life-enhancing programs and character development experiences. The Clubs focus on programs organized around four priority outcomes: Academic Success, Good Character & Leadership, Healthy Choices and Career Pathways & Workforce Readiness. 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.

The Clubs operate the Mesa Arts Academy (the "Academy"); a charter school directed by the Clubs. The Clubs 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 operates under a charter contract with the Arizona State Board for Charter Schools which mandates policy and operational guidelines. The Academy is funded primarily through state equalization assistance.

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 the following net assets classifications:

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

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

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

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

AZ Youthforce, LLC was formed to provide youth with career exploration opportunities, skills development, internship opportunities, vocational training resources, college information, and summer employment opportunities. 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. BG Development, LLC was formed to construct three new clubhouses, which were completed during 2009.

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 or the related service are deferred until the period in which the event occurs or the service is rendered.

State equalization funding for the Academy is recognized as the education is provided to the students throughout the school year, which occurs within the normal fiscal year of the Clubs. State equalization revenue is included in government fees in the consolidated statement of activities and changes in net assets. State equalization funding is generally received in monthly payments from the Arizona Department of Education and is based on a dollar amount per student enrolled at certain measurement points during the academic year.

Contributions and grants - The Clubs evaluate grants and contributions for evidence of the transfer of commensurate value from the Clubs to the grantor or resource provider. The transfer of commensurate value from the Clubs to the grantor or resource provider may include instances when a) the goods or services provided by the Clubs directly benefit the grantor or resource provider or are for the sole use of the grantor or resource provider, or b) the grantor or resource provider obtains proprietary rights or other privileges from the goods or services provided by the Clubs. When such factors exist, the Clubs account for the grants or contributions as exchange transactions under ASC 605, *Revenue Recognition*, or other appropriate guidance. In the absence of these factors, the Clubs account for the award under the contribution accounting model.

(1) <u>Clubs operations and summary of significant accounting policies (continued)</u>

In the absence of the transfer of commensurate value from the Clubs to the resource provider, the Clubs evaluate the contribution for criteria indicating the existence of measurable barriers to entitlement for the Clubs or the right of return to the resource provider. A barrier to entitlement is subject to judgment and generally represents an unambiguous threshold for entitlement that provides clarity to both the Clubs and resource provider whether the threshold has been met and when. These factors may include measurable performance thresholds or limited discretion on the part of the Clubs to use the funds. Should the existence of a measurable barrier to entitlement exist and be accompanied by a right of return of the funds to the resource provider or a release of the resource provider from the obligation, the contribution is treated as a conditional contribution. If both the barrier to entitlement and right of return do not exist, the contribution is unconditional.

The Clubs recognize amounts received from unconditional contributions at the time the Clubs receive notification of the award. Contributions that include conditions imposed by the grantor or resource provider are recognized when those conditions are met by the Clubs. The Clubs account for unconditional contributions in accordance with FASB ASC 958-605*, Not-for-Profit Entities – Revenue Recognition*. Contributions received are recorded as contributions without donor restrictions or contributions with donor restrictions depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Restricted contributions, where restrictions are fulfilled in the same period in which the contribution is received, are shown as additions to net assets without restrictions.

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.

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").

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 Clubs' past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the pledge's collectability. Amortization of the discounts is included in support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Grants and contracts receivable - Grants and contracts receivable are stated at the amount management expects to collect under the terms of the agreements. Management provides for probable uncollectible amounts, if considered necessary, through a charge to earnings and a credit to a valuation allowance based on their assessment of the current status of the individual amounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants and contracts receivable.

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

Investments - The Clubs account for their investments in accordance with FASB ASC 958-320, *Investments-Debt Securities* and FASB ASC 958-321, *Investments - Equity Securities*. Under FASB ASC 958-320 and 958-321, the Clubs are required to report investments in equity and debt securities at fair value. The fair values of investments with readily determinable fair value are based on quoted market prices.

Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risk in the near term could materially affect account balances and the amounts in the accompanying consolidated financial statements.

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

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 the period from inception (January 1, 2020) to June 30, 2020.

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

Donated facilities, materials and services - Donated facilities and materials are reflected as contributions in the consolidated statement of activities and changes in net assets at their estimated fair values at the date of receipt. Donated services are recognized as contributions in accordance with FASB ASC 958-605 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. No amounts have been reflected in the consolidated financial statements for certain donated volunteer services because they did not qualify for recording under the guidelines of FASB ASC 958-605; however, a substantial number of volunteers have donated significant amounts of their time in the Clubs' program services and fundraising campaigns. Management estimates that the unrecorded value of donated services was $137,918 for the period from inception (January 1, 2020) to June 30, 2020.

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

The Clubs received the following donated materials and services for the period from inception (January 1, 2020) to June 30, 2020:

	Used for	Amount
Donated leased land and space	Program	4,482,291
Other	Various	52,075
		$ 4,534,366

Donated leased space includes annual agreements between the Clubs and lessors where the Clubs lease shared space for nominal rent. The annual value of the donated leased space is determined through estimates of fair market rent based on observable market inputs.

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

Expense	Method of Allocation
Salaries and benefits	Time and effort
Occupancy	Square Footage
Depreciation	Square footage
Professional fees	Full time equivalent

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

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

The Club's federal Return of Organizations Exempt from Income Tax (Form 990) for the period from inception (January 1, 2020) to June 30, 2020 has not yet been filed. The Clubs was formed under the employer identification number of legacy East Valley. The East Valley federal Return of Organizations Exempt from Income Tax (Form 990) for the fiscal 2017, 2018 and 2019 are subject to examination by the IRS, generally for the three years after they were filed.

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

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

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.

Risks and uncertainties - On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and known now as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. As of the date of issuance of the consolidated financial statements, the Clubs' operations have not been significantly impacted; however, the Clubs did temporarily close certain individual clubs as a requirement of governmental orders in the State of Arizona. No impairments were recorded as of the date of the consolidated statement of financial position as no triggering events or changes in circumstances had occurred as of year-end; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. Depending on the severity and duration of the pandemic, the Clubs could experience a material impact to operations if further decisions to close certain clubs are made by management. The pandemic could impact the Clubs ability to serve members, receive contributions and also could impact the performance of the Clubs' investment portfolio.

In April 2020, the Clubs applied for and received a forgivable Paycheck Protection Loan of $2,413,900 as provided under the Federal Coronavirus Aid, Relief and Economic Security Act ("CARES" Act) and the loan was funded in April 2020. Under the terms of the loan, the balance may be forgivable to the extent the proceeds are used for certain qualified costs for the 24-week period through October 2020 and that certain employment levels are maintained. To the extent a portion of the loan does not meet the criteria to be forgiven, such amount is due in April 2022 and carries an interest rate of 1.00%. Monthly principal and interest payments are due beginning seven months after receipt of the proceeds. The Clubs anticipates using all of the proceeds for eligible costs and expects the entire loan to be forgiven. A formal request for forgiveness will be submitted after the performance period outlined above. Upon receipt of a legal release from the obligation, the Clubs will record a gain on the extinguishment of debt equal to the amount forgiven.

The Clubs has received certain CARES Act federal and state grants to assist the Clubs in remaining open during the pandemic. The Clubs continues to closely monitor the situation. Depending on the severity and duration of the pandemic, the Clubs could experience a material negative impact to operations, cash flows and financial condition. However, the extent of the future impact cannot be reasonably estimated at this time.

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

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

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842*). ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in existing lease accounting guidance.

In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) – Effective Dates for Certain Entities*. ASU 2020-05 defers, for one year, the required effective date of ASU 2014-09 for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of ASU 2014-09. Those entities, including the Clubs, may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019 and for interim periods within annual reporting periods beginning after December 15, 2020, or may elect to follow the original effective date for annual reporting periods beginning after December 15, 2018. ASU 2020-05 also defers the effective date for entities in the "all other" category and public not for profit entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of ASU 2016-02. Therefore, under the amendments, ASU 2016-02 is effective for entities within the "all other" category for fiscal years beginning after December 15, 2021. Early application continues to be permitted. The Clubs has elected to adopt the provisions of ASU 2020-05. With the adoption of ASU 2020-05, the adoption of ASU 2014-09 will be effective for the annual period ended June 30, 2021.

Subsequent events - The Clubs have evaluated events through December 29, 2020 which is the date the consolidated financial statements were available to be issued.

(2) Liquidity and availability of resources

The following represents the Clubs financial assets at June 30, 2020:

Cash and cash equivalents	$ 7,997,051
Receivables	4,621,891
Investments	3,002,606
Total financial assets	15,621,548
Less contractual or donor-imposed restrictions:	
Capital campaign and facilities remodel	(728,586)
Restricted for specific clubs or programs not expected to be used within the next twelve months	(4,198,120)
Scholarship fund	(382,077)
Board designated net assets	(76,527)
Total financial assets available for general expenditure within the next twelve months	$ 10,236,238

(2) Liquidity and availability of resources (continued)

The Clubs goal is generally to maintain financial assets to meet 90 days of cash operating expenses (approximately $3.6 million). As part of its liquidity plan, excess cash is invested in short-term investments, including asset allocation mutual funds and short-term fixed income mutual funds. Although investments are classified as long-term based on management's intent, the investments held by the Clubs can be readily liquidated to support general expenditures within the next twelve months. The Clubs has a $300,000 line of credit and a $500,000 line of credit available to meet cash flow needs.

(3) Receivables

Receivables consist of the following as of June 30, 2020:

United Way allocations	$ 110,000
Bequests	2,857,196
Unconditional promises to give due in less than one year	910,449
Grants and contracts	224,246
Event receivables	120,000
Pledges restricted for investment in property and equipment	400,000
Total receivables	$ 4,621,891

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

A bequest receivable from one irrevocable trust comprises approximately 62% of total net receivables as of June 30, 2020. A final distribution payment is expected from the trust in January 2021. All receivable balances at June 30, 2020 are considered fully collectible by management and, accordingly, an allowance for doubtful account has not been provided.

(4) Investments

Investments consist of the following as of June 30, 2020:

Capital appreciation mutual funds:	
Asset allocation funds	$ 1,103,080
Capital preservation funds:	
Fixed income bond mutual funds-short term	1,889,520
Other capital preservation funds	10,006
Total capital preservation funds	1,899,526
Investments, net	$ 3,002,606

(5) Property and equipment

Property and equipment consist of the following as of June 30, 2020:

Cost and donated value:	
Land	$ 3,047,495
Buildings and improvements	39,282,813
Furniture and equipment	7,365,180
Construction in progress	161,862
Total cost and donated value	49,857,350
Accumulated depreciation	(29,397,934)
Property and equipment, net	$ 20,459,416

Depreciation expense charged to operations was $1,120,099 in the period from inception (January 1, 2020) to June 30, 2020.

(6) Cash surrender value of life insurance

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

(7) Long-term debt

Long-term debt includes interest free notes payable to the City of Phoenix for various maintenance and improvement projects at branch locations. The principal balance of the notes is forgiven from the certificate of completion date (November 19, 2009, March 19, 2010, June 30, 2011, January 31, 2013, February 24, 2014, May 28, 2015, May 24, 2016, May 8, 2017 and November 1, 2018 respectively) over 10 years, at 20 percent per year over the last five years of the term of the notes, provided the properties are used exclusively for low and moderate income persons or eligible programs. If the Clubs fail to comply with the grant restrictions, the Clubs will be required to repay the full amount of the notes on demand. At June 30, 2020, $324,077 were outstanding under these notes.

The Clubs entered into a $1,500,000 line of credit during fiscal 2016. The line is for a period of 5 years, carries a fixed 3.50% interest rate, and is amortized over a 7-year term. The line is collateralized by securities of the Foundation. At June 30, 2020, $448,399 was outstanding under this line of credit. The Clubs paid the full outstanding balance of the line of credit in December 2020.

During fiscal 2016, the Clubs obtained a $300,000 line of credit which has a maturity date of July 1, 2020. In July 2020, the Clubs extended the maturity date of the line of credit to August 1, 2021. Interest will be the indexed rate of the lender, which is their prime rate. The indexed rate was approximately 3.25% at June 30, 2020. No amounts are outstanding under this line of credit.

The Clubs 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, 2020, no amounts are outstanding under this line of credit.

(7) Long-term debt (continued)

At June 30, 2020, estimated annual maturities of long-term debt outstanding are as follows:

Years Ending June 30,		
2021	$	188,090
2022		361,492
2023		45,818
2024		45,818
2025		131,258
Total annual debt maturities	$	772,476

(8) Board designated net assets without donor restrictions

The board of directors has designated portions of the net assets without donor restrictions for various purposes, including staffing, the purchase of supplies, special projects, and operating reserves. Board designations of $50,330 were released for the purposes of staffing, the purchase of supplies, special projects, and changes in operating reserves during the period from inception (January 1, 2020) to June 30, 2020. The remaining board designated net assets totaled $76,527 as of June 30, 2020.

(9) Net assets with donor restrictions

Net assets with donor restrictions as of June 30, 2020 were as follows:

Purpose restrictions:		
Capital campaign and facilities remodel	$	728,586
Restricted for specific clubs or programs		6,160,112
Scholarship fund		382,077
Time restrictions:		
United Way		110,000
Donated land and space leases		5,470,831
Perpetually restricted interest in Foundation net assets (Note 13)		4,355,461
Total net assets with donor restriction	$	17,207,067

The Clubs account for donated land received by East Valley in July 2014 as restricted for specific clubs or programs in accordance with specific restrictions placed on the land usage pursuant to a quit-claim deed from the City of Mesa to East Valley. The restriction is in place for a 17-year period, expiring in June 2031. As of June 30, 2020, $1,747,059 is included as net assets restricted for specific clubs or programs. The Clubs releases this asset from restriction over the specified period.

(9) Net assets with donor restrictions (continued)

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

Purpose restrictions:		
Capital campaign and facilities remodel	$	65,507
Restricted for specific clubs or programs		1,326,328
Scholarship fund		34,598
Time restrictions:		
United Way		135,874
Donated land and space leases		468,985
Other		80,000
Restricted interest in Foundation net assets		140,697
Total releases from net assets with donor restrictions	$	2,251,989

During the period from inception (January 1, 2020) to June 30, 2020, two donors changed the intent of their contributions and released all previously communicated restrictions. The Clubs reclassified the contributions where the donors changed their intent, totaling $1,140,390, from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities and changes in net assets.

(10) Commitments and contingencies

Litigation - From time to time, the Clubs are involved in various legal actions, occurring in the normal course of business. In the opinion of management based on consultation with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial. Management believes that a resulting liability, if any, will not materially affect the consolidated financial position or results of operations.

Operating leases - The Clubs have various operating leases for equipment, which expire through fiscal 2032. Minimum future rental payments under these noncancellable operating leases are as follows:

Years Ending June 30,		
2021	$	224,516
2022		213,909
2023		180,588
2024		119,211
2025		58,785
Thereafter		327,848
Total minimum future rental payments	$	1,124,857

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 $146,618 in the period from inception (January 1, 2020) to June 30, 2020.

(10) Commitments and contingencies (continued)

The Clubs is a party to various long-term land lease agreements and shared use lease agreements with school districts and municipalities whereby the Clubs is provided access to land and/or space in a building for nominal rent. The land leases range from 30 to 99 years and the shared use leases range from 4 to 6 years, generally with options to renew. The leases are noncancellable except for matters of default by the Clubs. The Clubs has recognized a receivable for the donated use of the land and shared use buildings, an unconditional contribution by the donors. To determine the value of the receivable, the Clubs used the lesser of the fair value of the leased premises or the fair value rent payments discounted over the lease term using a discount rate. Amortization of the receivable is recognized as rent expense on an annual basis. For the period from inception (January 1, 2020) to June 30, 2020, the Clubs recognized $497,374 of amortization on this receivable. As of June 30, 2020, the unamortized balance of the donated leases receivable and accompanying discount totaled $5,470,831.

Future amortization of the donated leases receivable and accompanying discount is as follows:

Years Ending June 30,	
2021	$ 937,970
2022	937,970
2023	937,970
2024	937,970
2025	735,548
Thereafter	983,403
Total remaining amortization	$ 5,470,831

Contractual commitment - The Clubs entered into an agreement with another organization to manage their dental clinic beginning July 1, 2019. The contractually obligated payments include monthly payments of $37,500 through June 30, 2020. The agreement has been extended through March 31, 2021.

(11) Retirement plan

The Clubs have a non-contributory defined contribution pension plan for all employees who meet specified age and service requirements. The plan is administered by the Clubs. The Clubs make annual contributions in the amount of 5% of eligible salaries in the period from inception (January 1, 2020) to June 30, 2020. Total pension expense was $143,815 for the period from inception (January 1, 2020) to June 30, 2020.

(12) Related party transactions

The Clubs received contributions from board of director members of $629,364 in the period from inception (January 1, 2020) to June 30, 2020. Approximately $23,803 of the amount received in the period from inception (January 1, 2020) to June 30, 2020 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 $488,417 in the period from inception (January 1, 2020) to June 30, 2020.

The Clubs paid dues to their national affiliate, The Boys and Girls Clubs of America, of $23,183 in the period from inception (January 1, 2020) to June 30, 2020.

The Clubs recognized contributions from a related organization, Boys & Girls Clubs of the Valley Foundation (the "Foundation") totaling $384,782 in the period from inception (January 1, 2020) to June 30, 2020. As of June 30, 2020, $384,782 of this amount is included in receivables in the accompanying consolidated statement of financial position.

(12) Related party transactions (continued)

The Foundation reimbursed the Clubs $80,594 for operational activity costs that were conducted by staff of the Clubs during the period. These revenues are included in the accompanying statement of activities and changes in net assets within other support and revenues. Accounts receivable from the Foundation related to reimbursement of operational activity costs was $128,816 at June 30, 2020 and is included in receivables in the accompanying consolidated statement of financial position.

(13) 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 $7,670,963 as of June 30, 2020.

Summarized financial information of the Foundation as of June 30, 2020 and for the period from inception (January 1, 2020) to June 30, 2020 is as follows:

Total assets	$ 8,148,242
Total liabilities	$ 477,279
Net assets	
Net assets without donor restrictions	3,315,502
Net assets with perpetual donor restrictions	4,355,461
Total net assets	$ 7,670,963
Total revenue	$ 10,131
Investment loss	$ (423,366)
Total expense	$ 471,654
Change in Foundation net assets	$ (884,889)

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.

(14) Fair value measurements

The following table summarizes the valuation of the Clubs' assets and liabilities subject to recurring fair value measurement by the above FASB ASC 820 categories as of June 30, 2020:

	Total	Level 1	Level 2	Level 3
Capital appreciation mutual funds:				
Asset allocation funds	$ 1,103,080	$ 1,103,080	$ -	$ -
Capital preservation funds:				
Fixed income bond mutual funds-short term	1,889,520	1,889,520		
Other capital preservation funds	10,006	10,006	-	-
Total capital preservation funds	1,899,526	1,899,526	-	-
Total investments at fair value	$ 3,002,606	$ 3,002,606	$ -	$ -

ADDITIONAL INFORMATION

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors of

BOYS & GIRLS CLUBS OF THE VALLEY, INC.

We have audited the consolidated financial statements of Boys & Girls Clubs of the Valley, Inc. as of June 30, 2020 and for the period from inception (January 1, 2020) to June 30, 2020, and our report thereon dated December 29, 2020, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Pro-Forma Combined Statement of Activities and Changes in Net Assets and the Pro-Forma Combined Statement of Cash Flows for the period from July 1, 2019 to June 30, 2020, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Mayer Hoffman McCann P.C.

December 29, 2020

BOYS & GIRLS CLUBS OF THE VALLEY, INC.

PRO-FORMA COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Period from July 1, 2019 to June 30, 2020

SUPPORT AND REVENUES	
Contributions and grants	$ 18,628,450
Governmental fees	2,483,156
Program service fees	2,325,234
Change in interest in Foundation net assets	384,341
Donated facilities, materials and services	7,472,889
Investment income, net	99,893
Gain on sale of property and equipment	348,752
Change in cash surrender value of life insurance	4,297
Net realized and unrealized investment losses	23,192
Insurance recoveries	8,006
Other	492,773
Total support and revenues before special events and net assets released from restrictions	32,270,983
Special events revenues	2,234,007
Less costs of direct donor benefits	(551,445)
Gross profit on special events	1,682,562
TOTAL SUPPORT AND REVENUES	33,953,545
EXPENSES	
Personnel costs	12,837,567
Professional fees	1,292,424
Supplies	1,719,534
Occupancy	3,201,000
Insurance	349,855
Telephone	157,209
Conferences, conventions and meetings	188,691
Repairs and maintenance	659,826
Youth assistance	160,327
Transportation	149,835
Public relations	76,820
Printing	129,568
Training	90,967
National dues	48,459
Professional dues	62,720
Postage	6,756
Interest	42,232
Depreciation	2,313,264
Bank fees	90,254
Other	105,054
TOTAL EXPENSES	23,682,362
CHANGE IN NET ASSETS	10,271,183
NET ASSETS, BEGINNING OF PERIOD	34,051,906
NET ASSETS, END OF PERIOD	$ 44,323,089

See Independent Auditors' Report on Additional Information

BOYS & GIRLS CLUBS OF THE VALLEY, INC.

PRO-FORMA COMBINED STATEMENT OF CASH FLOWS

Period from July 1, 2019 to June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 10,271,183
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,313,264
Unrealized loss on investments	(55,985)
Realized loss on investments	32,793
Gain on sale of real property	(348,752)
Amortization of donated lease receivable	497,374
Donated lease receivable	(5,968,205)
Donated property and equipment	(28,419)
Contributions restricted to investment in property and equipment	(160,000)
Change in interest in Foundation net assets	(383,733)
Forgiveness of CDBG debt	(13,320)
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Receivables	(2,366,567)
Other assets	68,789
Increase (decrease) in:	
Accounts payable	(339,085)
Accrued expenses	32,977
Deferred revenues	48,735
Other liabilities	(2,162)
Net cash provided by operating activities	3,598,887
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(867,705)
Purchases of investments	(3,269,700)
Change in cash surrender value of life insurance	(4,297)
Proceeds from sale of property	191,000
Proceeds from note receivable	358,361
Proceeds from sales of investments	4,451,654
Net cash provided by investing activities	859,313
CASH FLOWS FROM FINANCING ACTIVITIES	
Collection of contributions restricted to investment in property and equipment	60,000
Proceeds from paycheck protection loan	2,413,900
Payments on term loan	(131,824)
Payments on capital lease obligations	(13,474)
Payments on line of credit	(420,000)
Net cash provided by financing activities	1,908,602
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	6,366,802
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD	1,630,249
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	$ 7,997,051

UNIFORM GUIDANCE
SUPPLEMENTARY REPORTS

BOYS & GIRLS CLUBS OF THE VALLEY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Period from July 1, 2019 to June 30, 2020

Federal Grantor / Pass-Through Agency / Program or Cluster Title	Federal CFDA Number	Contract Number	Federal Expenditures
U.S. Department of Agriculture			
Child Nutrition Cluster			
Passed through Arizona Department of Education			
Summer Food Service Program for Children	10.559	unknown	$ 110,677
COVID-19 - Summer Food Service Program for Children	10.559	unknown	136,480
National School Lunch Program	10.555	unknown	58,589
COVID-19 - National School Lunch Program	10.555	unknown	13,491
Total Child Nutrition Cluster (10.555 and 10.559)			319,237
Passed through Arizona Department of Education			
Child and Adult Care Food Program	10.558	KR02-1170-ALS	31,687
COVID-19 - Child and Adult Care Food Program	10.558	KR02-1170-ALS	197,213
Total Child and Adult Care Food Program			228,900
Total U.S. Department of Agriculture			548,137
U.S. Department of Housing and Urban Development			
Passed through City of Glendale			
Community Development Block Grants / Entitlement Grants	14.218	C20-0091	10,000
Passed through City of Phoenix			
Community Development Block Grants / Entitlement Grants	14.218	150768-0	7,326
Community Development Block Grants / Entitlement Grants	14.218	144193-0	42,000
Community Development Block Grants / Entitlement Grants	14.218	141741	35,700
Community Development Block Grants / Entitlement Grants	14.218	139791-0	30,519
Community Development Block Grants / Entitlement Grants	14.218	136847-0	60,000
Community Development Block Grants / Entitlement Grants	14.218	148940-0	75,000
Community Development Block Grants / Entitlement Grants	14.218	129690	21,960
Community Development Block Grants / Entitlement Grants	14.218	132809	48,698
Community Development Block Grants / Entitlement Grants	14.218	127427	10,200
Total U.S. Department of Housing and Urban Development			341,403
U.S. Department of Justice			
Passed through Boys and Girls Clubs of America	16.726	OJP 2019-46613	4,219
Juvenile Mentoring Program	16.726	OJP 2019-46638	4,608
Juvenile Mentoring Program	16.726	OJP 2019-46639	3,925
Juvenile Mentoring Program	16.726	OJP 2019-46647	3,733
Juvenile Mentoring Program	16.726	OJP 2018-43304	8,252
Juvenile Mentoring Program	16.726	OJP 2018-43305	12,361
Juvenile Mentoring Program	16.726	OJP 2018-43307	10,925
Juvenile Mentoring Program	16.726	OJP 2018-43308	10,925
Juvenile Mentoring Program	16.726	OJP 2018-43306	10,646
Juvenile Mentoring Program	16.726	OJP 2018-43309	10,963
Juvenile Mentoring Program	16.726	OJP 2018-43310	10,107
Passed through United States Soccer Federation Foundation, Inc.			
Juvenile Mentoring Program	16.726	OJP 2018-JU-FX-0037	13,522
Total U.S. Department of Justice			104,186
U.S. Department of Education			
Passed through Arizona Department of Education			
Title I Grants to Local Educational Agencies	84.010	20FT1TTI-010117-01A	112,768
Supportive Effective Instruction State Grants	84.367	20FT1TII-010117-03A	9,675
Higher Education Institutional Aid	84.031	Consortium	4,265
Student Support and Academic Enrichment Program	84.424	20FT4TIV-010117-01A	10,001
Special Education Cluster (IDEA)			
Special Education - Grants to States (IDEA, Part B)	84.027	20FESCBG-010117-09A	41,633
Special Education - Preschool Grants (IDEA Preschool)	84.173	20FECCBP-010117-37A	1,124
Total Special Education Cluster (84.027 and 84.173)			42,757
Total U.S. Department of Education			179,466
U.S. Department of Health and Human Services			
Demonstration Projects for Indian Health	93.933	NCAI-18-012-EV-AZ H1H4-HIS-0004-02-00	5,707
National Collaboration to Support Health, Wellness and Academic Success of School-Agre Children	93.858	CDC-19-COW-03	2,854
Total U.S. Department of Health and Human Services			8,561
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,181,753

See Independent Auditors' Report

See Notes to the Schedule of Expenditures of Federal Awards

BOYS & GIRLS CLUBS OF THE VALLEY, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Period from July 1, 2019 to June 30, 2020

(1) Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of ***Boys & Girls Clubs of the Valley, Inc.*** under programs of the federal government for the period from January 1, 2020 to June 30, 2020 and the federal grant activity of Boys & Girls Clubs of the East Valley, Inc. under programs of the federal government for the period from July 1, 2019 to December 31, 2019. Boys & Girls Clubs of the Valley, Inc. is incorporated under the employer identification number previously assigned to Boys & Girls Clubs of the East Valley, Inc. and as such, the Schedule includes all expenditures of federal awards not previously presented. 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 the Valley, Inc.***, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows. ***Boys & Girls Clubs of the Valley, Inc.*** and Boys & Girls Clubs of the East Valley, Inc. did not provide federal awards to sub-recipients during the period from July 1, 2019 to June 30, 2020.

(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 the Valley, Inc.*** 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 the Valley, Inc. has loans outstanding for various maintenance and improvement projects at branch locations which are funded through Community Development Block Grants. Loans outstanding at the beginning of the year are included in the federal expenditures presented in the accompanying schedule of expenditures of federal awards. The balance of loans outstanding at June 30, 2020 consists of:

Federal Grantor/Program/Pass Through Agency	Federal CFDA Number	Pass-Through Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Passed through the City of Phoenix			
Community Development Block Grants/Entitlement Grants	14.218		
City of Phoenix		144193-0	$ 42,000
City of Phoenix		141741	35,700
City of Phoenix		139791-0	30,519
City of Phoenix		136847-0	60,000
City of Phoenix		132809	48,698
City of Phoenix		127427	10,200
City of Phoenix		129690	21,960
City of Phoenix		148940	75,000
Total loans outstanding			$ 324,077

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

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 THE VALLEY, INC.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of ***Boys & Girls Clubs of the Valley, Inc.*** (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the period from January 1, 2020 to June 30, 2020, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 29, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered ***Boys & Girls Clubs of the Valley, Inc.'s*** internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ***Boys & Girls Clubs of the Valley, Inc.'s*** internal control. Accordingly, we do not express an opinion on the effectiveness of ***Boys & Girls Clubs of the Valley, Inc.'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 ***Boys & Girls Clubs of the Valley, Inc.'s*** consolidated 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 ***Boys & Girls Clubs of the Valley, Inc.'s*** internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ***Boys & Girls Clubs of the Valley, Inc.'s*** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

December 29, 2020

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

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 THE VALLEY, INC.

Report on Compliance for Each Major Federal Program

We have audited ***Boys & Girls Clubs of the Valley, Inc.'s*** compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Compliance Supplement that could have a direct and material effect on ***Boys & Girls Clubs of the Valley, Inc.'s*** major federal programs for the period from July 1, 2019 to June 30, 2020. ***Boys & Girls Clubs of the Valley, Inc.'s*** major federal programs are 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 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 the Valley, Inc.'s*** major federal programs 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 requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "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 each major federal program occurred. An audit includes examining, on a test basis, evidence about ***Boys & Girls Clubs of the Valley, Inc.'s*** 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 each major federal program. However, our audit does not provide a legal determination of ***Boys & Girls Clubs of the Valley, Inc.'s*** compliance.

Opinion on Major Federal Programs

In our opinion, ***Boys & Girls Clubs of the Valley, Inc.*** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each major federal program for the period from July 1, 2019 to June 30, 2020.

Report on Internal Control Over Compliance

Management of ***Boys & Girls Clubs of the Valley, Inc.*** 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 the Valley, Inc.'s*** internal control over compliance with the types of requirements that could have a direct and material effect on each 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 ***Boys & Girls Clubs of the Valley, Inc.'s*** 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.

December 29, 2020

BOYS & GIRLS CLUBS OF THE VALLEY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Period from July 1, 2019 to June 30, 2020

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to the consolidated financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of Auditors' Report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.555 and 10.559	Child Nutrition Cluster
14.218	Community Development Block Grants / Entitlement Grants

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

BOYS & GIRLS CLUBS OF THE VALLEY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Period from July 1, 2019 to June 30, 2020

Section II – Financial Statement Findings

None noted

Section III – Federal Awards Findings

None noted

Section IV – Status of Prior Years Findings

None