Financial Reports

BOYS & GIRLS CLUBS
OF THE EAST VALLEY

FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

Henry+Horne

BOYS & GIRLS CLUBS OF THE EAST VALLEY
TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

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

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, 2019 and 2018, 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, 2019 and 2018, 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 13, 2019, 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.

Prior Period Adjustment

As described in Note 11 to the financial statements, the 2018 financial statements have been restated to correct an error.

Tempe, Arizona
December 13, 2019

FINANCIAL STATEMENTS

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 612,370	$ 527,907
Restricted cash	45,587	37,102
Grants and contracts receivable	312,637	319,437
United Way receivable	54,890	270,500
Prepaid expenses	72,350	61,508
TOTAL CURRENT ASSETS	1,097,834	1,216,454
NON-CURRENT ASSETS		
Property and equipment - net	7,854,369	8,182,152
Investments	741,460	708,751
Other assets	12,980	7,393
TOTAL NON-CURRENT ASSETS	8,608,809	8,898,296
TOTAL ASSETS	$ 9,706,643	$ 10,114,750
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 658,422	$ 408,277
Accrued liabilities	387,032	320,274
Deferred revenue	13,216	353,555
Line of credit	420,000	150,000
Current portion of leases payable	13,474	20,790
Current portion of notes payable	2,162	41,994
TOTAL CURRENT LIABILITIES	1,494,306	1,294,890
LONG-TERM LIABILITIES		
Leases payable	48,356	50,203
Notes payable	-	49,059
TOTAL LONG-TERM LIABILITIES	48,356	99,262
TOTAL LIABILITIES	1,542,662	1,394,152
NET ASSETS		
Undesignated	964,174	920,055
Board designated reserve	662,442	520,615
Net assets without donor restrictions	1,626,616	1,440,670
Net assets with donor restrictions	6,537,365	7,279,928
TOTAL NET ASSETS	8,163,981	8,720,598
TOTAL LIABILITIES AND NET ASSETS	$ 9,706,643	$ 10,114,750

See accompanying notes.

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Government grants and contracts	$ 2,378,654	$ 82,760	$ 2,461,414
Charter school program	1,910,386	-	1,910,386
Program service fees	1,320,388	-	1,320,388
United Way allocations	27,409	5,625	33,034
Contributions	746,486		746,486
Rental income	34,581	-	34,581
In-kind contributions			
Rents	1,385,024	-	1,385,024
Materials	56,643	-	56,643
Service	120,000	-	120,000
Miscellaneous	34,080	-	34,080
Total revenues and support before special events and net assets released from restrictions	8,013,651	88,385	8,102,036
Special event revenues	396,115	-	396,115
Contributions - special events	1,509,479	32,000	1,541,479
Less costs of direct donor benefits	(414,778)	-	(414,778)
Gross profit on special events	1,490,816	32,000	1,522,816
Total revenue and support before net assets released from purpose restrictions	9,504,467	120,385	9,624,852
Net assets released from purpose restrictions	862,948	(862,948)	-
TOTAL REVENUES AND OTHER SUPPORT	10,367,415	(742,563)	9,624,852
EXPENSES			
Boys & Girls Clubs	6,903,133	-	6,903,133
Mesa Arts Academy	1,862,216	-	1,862,216
Fundraising	785,060	-	785,060
Management and general	671,435	-	671,435
TOTAL EXPENSES	10,221,844	-	10,221,844
CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	145,571	(742,563)	(596,992)
NONOPERATING ACTIVITIES			
Gain/(loss) on disposal of assets	(5,866)	-	(5,866)
Investment income	46,241	-	46,241
Total revenue/(expense) from nonoperating activities	40,375	-	40,375
CHANGE IN NET ASSETS	185,946	(742,563)	(556,617)
NET ASSETS AT BEGINNING OF YEAR, RESTATED	1,440,670	7,279,928	8,720,598
NET ASSETS AT END OF YEAR	$ 1,626,616	$ 6,537,365	$ 8,163,981

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

	Without Donor Restrictions	With Donor Restrictions	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	756,024	(756,024)	-
TOTAL REVENUES AND OTHER SUPPORT	9,967,126	(469,890)	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	179,603	(469,890)	(290,287)
NONOPERATING ACTIVITIES			
Gain/(loss) on disposal of assets	(20,384)	-	(20,384)
Investment income	49,446	-	49,446
Total revenue/(expense) from nonoperating activities	29,062	-	29,062
CHANGE IN NET ASSETS	208,665	(469,890)	(261,225)
NET ASSETS AT BEGINNING OF YEAR	586,408	8,395,415	8,981,823
PRIOR PERIOD ADJUSTMENT	645,597	(645,597)	-
NET ASSETS AT BEGINNING OF YEAR, RESTATED	1,232,005	7,749,818	8,981,823
NET ASSETS AT END OF YEAR, RESTATED	$ 1,440,670	$ 7,279,928	$ 8,720,598

See accompanying notes.

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019

	Boys & Girls Clubs	Mesa Arts Academy	Fundraising
Personnel expenses	$ 3,118,069	$ 1,586,089	$ 564,423
Professional services and subcontracts	190,887	35,867	62,361
In-kind contributions, services and materials	1,476,604	-	18,778
Supplies	87,278	134,693	3,779
Program service expense	353,113	94,707	-
Telecommunications	41,994	-	5,659
Postage and shipping	49	-	1,410
Occupancy	733,524	-	18,123
Equipment rental and repair	37,440	-	6,702
Depreciation and amortization	561,172	-	15,259
Printing and publications	22,282	5	4,294
Vehicle costs	95,722	501	15,984
Training, conferences and meetings	38,164	10,182	34,322
Membership dues	24,267	79	10,707
Specific assistance to individuals	62,735	-	2,205
Interest, bank charges and miscellaneous	59,833	93	21,054
TOTAL FUNCTIONAL EXPENSES	6,903,133	1,862,216	785,060
Amounts reported in total support and other revenue on the statement of activities:			
Direct benefit to donors	-	-	-
TOTAL EXPENSES	$ 6,903,133	$ 1,862,216	$ 785,060

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
STATEMENT OF FUNCTIONAL EXPENSES (Continued)
Year Ended June 30, 2019

	Management and General	Direct Benefit to Donors	Total
Personnel expenses	$ 501,786	$ -	$ 5,770,367
Professional services and subcontracts	16,134	-	305,249
In-kind contributions, services and materials	9,642	-	1,505,024
Supplies	16,156	-	241,906
Program service expense	-	414,778	862,598
Telecommunications	4,888	-	52,541
Postage and shipping	3,475	-	4,934
Occupancy	50,566	-	802,213
Equipment rental and repair	2,455	-	46,597
Depreciation and amortization	40,471	-	616,902
Printing and publications	600	-	27,181
Vehicle costs	6,687	-	118,894
Training, conferences and meetings	5,454	-	88,122
Membership dues	4,763	-	39,816
Specific assistance to individuals	-	-	64,940
Interest, bank charges and miscellaneous	8,358	-	89,338
TOTAL FUNCTIONAL EXPENSES	671,435	414,778	10,636,622
Amounts reported in total support and other revenue on the statement of activities:			
Direct benefit to donors	-	(414,778)	(414,778)
TOTAL EXPENSES	$ 671,435	$ -	$ 10,221,844

BOYS AND 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
Educational awards	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

See accompanying notes.

BOYS AND 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
Educational awards	-	-	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 AND GIRLS CLUBS OF THE EAST VALLEY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (556,617)	$ (261,225)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	616,902	622,176
Loss on disposal of property	5,866	20,384
Realized/unrealized gain on investments	(29,023)	(35,076)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Grants, contracts, and United Way receivables	222,410	(97,098)
Prepaid expenses and other assets	(16,429)	(15,036)
Increase (decrease) in:		
Accounts payable	250,145	(194,599)
Accrued liabilities	66,758	(23,923)
Deferred revenues	(340,339)	29,811
Net cash provided (used) by operating activities	207,673	45,414
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	113,426	98,183
Purchases of investments	(117,112)	(85,414)
Purchases of property and equipment	(270,985)	(178,805)
Net cash provided (used) by investing activities	(274,671)	(166,036)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan	-	64,585
Proceeds from line of credit	460,000	750,000
Payments on long-term debt	(84,697)	(40,530)
Payments on line of credit	(190,000)	(600,000)
Payments on obligations under capital lease	(25,357)	(50,744)
Net cash provided (used) by financing activities	159,946	123,311
NET INCREASE (DECREASE) IN CASH	92,948	2,689
CASH BEGINNING OF YEAR	565,009	562,320
CASH END OF YEAR	$ 657,957	$ 565,009
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF FINANCIAL POSITION:		
Cash and cash equivalents	$ 612,370	$ 527,907
Restricted cash	45,587	37,102
	$ 657,957	$ 565,009
RECONCILIATION TO STATEMENTS OF FINANCIAL POSITION		
Cash and cash equivalents	$ 612,370	$ 527,907
Restricted cash	45,587	37,102
	$ 657,957	$ 565,009
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Cash paid for interest	$ 31,129	$ 31,875
Equipment acquired under capital lease	$ 12,000	$ 64,585

See accompanying notes.

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, Queen Creek 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 net assets with donor restrictions and net assets without donor restrictions.

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. Cash and highly liquid financial instruments restricted to: building projects, endowments that are perpetual in nature, or other long term purposes are also excluded from this definition.

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, 2019 and 2018 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 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, less external investment expenses) is included in the change in net assets without donor restrictions 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 Club 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.

Contributions

Contributions received are recorded as either support with donor restrictions or as support without 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, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. It is the Club’s policy to classify donor restricted contributions as support without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

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 $192,434 for 2019 and $231,004 for 2018.

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. Any expenditures not directly chargeable are allocated based on personnel activity, square footage, and other appropriate indicators. Certain employee positions are allocated based on time and effort. Other expenses, including office supplies, training and memberships are allocated based on a full-time employee equivalent basis. Occupancy and depreciation expense are allocated based on square footage utilized by the function.

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, 2019 and 2018, 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, 2019 and 2018, the Club did not have any income tax related interest and penalties expense.

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

Net Assets

The Club reports information regarding its financial position and activities according to two classes of net assets as follows:

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated reserve.

- Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Gifts of long-lived assets and gifts of cash restricted for acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates

The preparation of 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 financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Date of Management's Review

In preparing these financial statements, the Club has evaluated events and transactions for potential recognition or disclosure through December 13, 2019, the date the financial statements were available to be issued.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Club has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented and resulted in the temporarily and permanently restricted net asset balances of $7,953,854 and unrestricted net asset balance $766,744 at June 30, 2018 being renamed net assets with donor restrictions and net assets without donor restrictions, respectively. Also, a new disclosure about liquidity and availability has been added.

NOTE 2 LIQUIDITY AND AVAILABILITY

For purposes of analyzing resources available to meet general expenditures over a one-year period, the Club considers all expenditures related to its ongoing activities of teaching, speech therapy, assessments, parent education, as well as the conduct of services undertaken to support those activities to be general expenditures. The Club's financial assets as of June 30, 2019 available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date are comprised of the following:

Cash and cash equivalents	$ 612,370
Grants and contracts receivable	367,527
Prepaid expenses	72,350
Investments - board designated reserve	662,442
Financial assets available for expenditure	$ 1,714,689

The Club regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds and operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Assets available for expenditure as of June 30, 2019 equals approximately 2 months' worth of expenses, based on total expenses incurred during the fiscal year.

NOTE 3 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 15% and 46% of the total receivables for the years ended June 30, 2019 and 2018, 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, 2019 and 2018 is $45,587 and $37,102, 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 4 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, 2019:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	$ 18,752	$ -	$ -	$ 18,752
Common stocks	235,970	-	-	235,970
Mutual funds	486,738	-	-	486,738
Total Investments	$ 741,460	$ -	$ -	$ 741,460

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

The following schedule summarizes the investment return for the years ended June 30:

	2019	2018
Interest and dividend income	$ 21,988	$ 14,370
Net realized and unrealized gains	29,023	35,076
Investment fees	(4,770)	(7,000)
	$ 46,241	$ 42,446

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2019	2018
Land	$ 2,725,000	$ 2,725,000
Buildings and improvements	7,256,734	7,256,734
Leasehold improvements	2,953,406	2,727,064
Furniture and equipment	2,495,232	2,483,232
Vehicles	810,348	898,589
Equipment held under capital leases	64,585	96,580
Total cost or donated value	16,305,305	16,187,199
Accumulated depreciation and amortization	(8,450,936)	(8,005,047)
Net property and equipment	$ 7,854,369	$ 8,182,152

NOTE 5 PROPERTY AND EQUIPMENT (Continued)

Depreciation and amortization expense charged to operations was $616,902 and $622,176 for the years ending June 30, 2019 and 2018, 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 $108,580 and $96,580 at June 30, 2019 and 2018, 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 $17,649 and $25,626 of accumulated amortization on equipment held under capital leases at June 30, 2019 and 2018, respectively.

NOTE 6 NOTES AND LEASES PAYABLE

The Club leases certain office equipment under capital leases. The leases expire at various times through February 2024 and bear interest at 6% to 8.5%. Future minimum lease payments and maturities under the capital lease obligations at June 30, 2019 are as follows:

Years Ending June 30,	Minimum Lease Payment	Interest	Net Minimum Lease Payment
2020	$ 20,337	$ 6,863	$ 13,474
2021	20,337	5,580	14,757
2022	20,339	4,017	16,322
2023	16,592	2,081	14,511
2024	3,124	358	2,766
Total	$ 80,729	$ 18,899	$ 61,830

At June 30, 2019, notes payable consists of the following:

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

Future minimum payments and maturities under the note at June 30, 2019 are $2,162 due within one year.

NOTE 7 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, 2019 and 2018 there was an outstanding balance of $420,000 and $150,000, respectively, on this line of credit agreement.

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30, 2019 and 2018:

	2019	2018
Property and equipment	6,316,612	6,755,939
Scholarships	13,187	39,760
Promises to give and foundation grants receivable	136,110	117,350
United Way contributions	5,625	218,500
Capital campaign	65,831	148,379
Total net assets with donor restrictions	$ 6,537,365	$ 7,279,928

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, which 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 net assets without donor restrictions and a decrease in net assets with donor restrictions.

NOTE 9 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 $140,303 and $120,414 for the years ended June 30, 2019 and 2018, respectively.

NOTE 10 OPERATING LEASES

The Club leases its Tempe facilities from the City of Tempe for $1 per year under a lease agreement that expires 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 10 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, 2020.

The Club leased its Gilbert facility from the Town of Gilbert for $1 per year under a thirty-year lease expiring in 2032.

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. Future minimum lease payments for this lease is $45,270. 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 $56,575 and $67,718 for the years ended June 30, 2019 and 2018, respectively.

NOTE 11 PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2019, management discovered an error in the classification of net assets. Previously an amount had been incorrectly reported as an endowment fund with donor restrictions and should have been reported as a board designated reserve without donor restrictions. As a result, net assets with donor restrictions as of June 30, 2017 was reclassed to net assets without donor restrictions in the amount of $645,597.

NOTE 12 SUBSEQUENT EVENT

The Boys & Girls Clubs of the East Valley has a letter of intent with the Boys and Girls of Metro Phoenix to merge the two organizations, with an anticipated date of January 1, 2020. Neither Board had voted to approve this as of the date of this report.

NOTE 13 NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. For nonpublic companies, this standard must be adopted for annual reporting periods beginning after December 15, 2018. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update ('ASU") No. 2016-02, Leases. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2020. The standard's core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update ("ASU") No. 2018-08, Not-For-Profit Entities-Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2019. The standard's core principle is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This ASU should assist entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

REPORT ON INTERNAL CONTROL AND COMPLIANCE SECTION

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*

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, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements and have issued our report thereon dated December 13, 2019.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a material weakness.

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 an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2019-001.

Boys & Girls Clubs of the East Valley's Response to Finding

Boys & Girls Clubs of the East Valley's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Boys & Girls Clubs of the East Valley's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
December 13, 2019

BOYS & GIRLS CLUBS OF THE EAST VALLEY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019

FINDING: 2019-001

CRITERIA

Net assets are required to be correctly classified as net assets with donor restrictions or net assets without donor restrictions. Board designated reserves should be classified as net assets without donor restrictions.

CONDITION/CONTEXT

Management discovered an error in the classification of net assets. Previously an amount had been incorrectly reported as an endowment fund with donor restrictions and should have been reported as a board designated reserve without donor restrictions.

EFFECT

As a result, net assets with donor restrictions as of June 30, 2017 was reclassed to net assets without donor restrictions in the amount of $645,597.

CAUSE

Past management incorrectly reported certain donations as an endowment.

RECOMMENDATION

Ensure all contributions are properly classified as either net assets with donor restrictions or net assets without donor restrictions.

VIEWS OF RESPONSIBLE OFFICIALS

Management concurs with this finding and has already initiated proper related controls over net asset classifications.