

HENRY & HORNE, LLP
CERTIFIED PUBLIC ACCOUNTANTS



BOYS & GIRLS CLUBS
OF THE EAST VALLEY

FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015



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HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Boys & Girls Clubs of the East Valley (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

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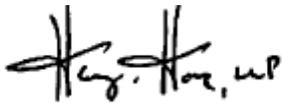
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Opinion

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, 2016 and 2015, 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 9, 2016 on our consideration of Boys & Girls Clubs of the East Valley's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Boys & Girls Clubs of the East Valley's internal control over financial reporting and compliance.



Casa Grande, Arizona
November 9, 2016

FINANCIAL STATEMENTS

BOYS & GIRLS CLUBS OF THE EAST VALLEY
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2016 and 2015

	<u>2016</u>	<u>2015 *</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 456,971	\$ 358,168
Grants and contracts receivable	261,519	73,073
United Way receivable	272,448	412,192
Promises to give	-	517,905
Prepaid expenses	<u>33,496</u>	<u>11,130</u>
TOTAL CURRENT ASSETS	<u>1,024,434</u>	<u>1,372,468</u>
NON-CURRENT ASSETS		
Property and equipment - net	9,079,739	9,612,054
Investments	659,661	652,621
Other assets	<u>13,009</u>	<u>13,102</u>
TOTAL NON-CURRENT ASSETS	<u>9,752,409</u>	<u>10,277,777</u>
TOTAL ASSETS	<u>\$ 10,776,843</u>	<u>\$ 11,650,245</u>

* Reclassified to conform to current year presentation

	<u>2016</u>	<u>2015</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 705,090	\$ 1,030,162
Accrued liabilities	321,179	333,606
Deferred revenue	168,304	298,390
Line of credit	100,000	324,000
Current portion of long-term leases payable	57,151	41,450
Current portion of long-term notes payable	<u>7,833</u>	<u>4,380</u>
TOTAL CURRENT LIABILITIES	<u>1,359,557</u>	<u>2,031,988</u>
LONG-TERM LIABILITIES		
Leases payable	52,557	109,709
Notes payable	<u>6,418</u>	<u>13,586.00</u>
TOTAL LONG-TERM LIABILITIES	<u>58,975</u>	<u>123,295</u>
TOTAL LIABILITIES	<u>1,418,532</u>	<u>2,155,283</u>
NET ASSETS		
Unrestricted	729,688	335,884
Temporarily restricted	3,558,279	3,794,243
Permanently restricted	<u>5,070,344</u>	<u>5,364,835</u>
TOTAL NET ASSETS	<u>9,358,311</u>	<u>9,494,962</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,776,843</u>	<u>\$ 11,650,245</u>

BOYS & GIRLS CLUBS OF THE EAST VALLEY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Government grants and contracts	\$ 2,365,355	\$ -	\$ -	\$ 2,365,355
Charter school program	1,677,584	-	-	1,677,584
Program service fees	1,299,021	-	-	1,299,021
United Way allocations	92,647	272,448	-	365,095
Contributions	485,345	33,000	-	518,345
Rental income	246,648	-	-	246,648
In-kind contributions				
Rents	1,381,524	-	-	1,381,524
Materials	12,832	-	-	12,832
Service	20,216	-	-	20,216
Miscellaneous	41,128	-	-	41,128
Total revenues and support before special events and net assets released from restrictions	<u>7,622,300</u>	<u>305,448</u>	<u>-</u>	<u>7,927,748</u>
Special event revenues	237,576	-	-	237,576
Contributions - special events	1,316,892	41,000	-	1,357,892
Less costs of direct donor benefits	<u>(291,478)</u>	<u>-</u>	<u>-</u>	<u>(291,478)</u>
Gross profit on special events	<u>1,262,990</u>	<u>41,000</u>	<u>-</u>	<u>1,303,990</u>
Total revenue and support before net assets released from restrictions	8,885,290	346,448	-	9,231,738
Net assets released from restrictions	<u>897,603</u>	<u>(603,112)</u>	<u>(294,491)</u>	<u>-</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>9,782,893</u>	<u>(256,664)</u>	<u>(294,491)</u>	<u>9,231,738</u>
EXPENSES				
Boys & Girls Clubs	6,687,772	-	-	6,687,772
Mesa Arts Academy	1,771,560	-	-	1,771,560
Fundraising	454,337	-	-	454,337
Management and general	<u>482,013</u>	<u>-</u>	<u>-</u>	<u>482,013</u>
TOTAL EXPENSES	<u>9,395,682</u>	<u>-</u>	<u>-</u>	<u>9,395,682</u>
CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	<u>387,211</u>	<u>(256,664)</u>	<u>(294,491)</u>	<u>(163,944)</u>

See accompanying notes.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
NONOPERATING ACTIVITIES				
Investment income	<u>6,593</u>	<u>20,700</u>	<u>-</u>	<u>27,293</u>
CHANGE IN NET ASSETS	<u>393,804</u>	<u>(235,964)</u>	<u>(294,491)</u>	<u>(136,651)</u>
NET ASSETS AT BEGINNING OF YEAR	<u>335,884</u>	<u>3,794,243</u>	<u>5,364,835</u>	<u>9,494,962</u>
NET ASSETS AT END OF YEAR	<u>\$ 729,688</u>	<u>\$ 3,558,279</u>	<u>\$ 5,070,344</u>	<u>\$ 9,358,311</u>

BOYS & GIRLS CLUBS OF THE EAST VALLEY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Government grants and contracts	\$ 1,937,514	\$ -	\$ -	\$ 1,937,514
Charter school program	1,589,236	-	-	1,589,236
Program service fees	1,173,876	-	-	1,173,876
United Way allocations	120,460	412,192	-	532,652
Contributions	225,832	557,572	-	783,404
Rental income	8,545	-	-	8,545
In-kind contributions				
Rents	1,393,753	-	-	1,393,753
Materials	70,822	-	-	70,822
Service	11,895	-	-	11,895
Land		2,700,000		2,700,000
Miscellaneous	34,553	-	-	34,553
	<u>6,566,486</u>	<u>3,669,764</u>	<u>-</u>	<u>10,236,250</u>
Special event revenues	269,509	-	-	269,509
Contributions - special events	1,386,546	38,200	-	1,424,746
Less costs of direct donor benefits	<u>(324,647)</u>	<u>-</u>	<u>-</u>	<u>(324,647)</u>
Gross profit on special events	<u>1,331,408</u>	<u>38,200</u>	<u>-</u>	<u>1,369,608</u>
Total revenue and support before net assets released from restrictions	7,897,894	3,707,964	-	11,605,858
Net assets released from restrictions	<u>1,503,661</u>	<u>(1,219,076)</u>	<u>(284,585)</u>	<u>-</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>9,401,555</u>	<u>2,488,888</u>	<u>(284,585)</u>	<u>11,605,858</u>
EXPENSES				
Boys & Girls Clubs	6,649,669	-	-	6,649,669
Mesa Arts Academy	1,459,168	-	-	1,459,168
Fundraising	591,128	-	-	591,128
Management and general	529,010	-	-	529,010
TOTAL EXPENSES	<u>9,228,975</u>	<u>-</u>	<u>-</u>	<u>9,228,975</u>
CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	<u>172,580</u>	<u>2,488,888</u>	<u>(284,585)</u>	<u>2,376,883</u>

See accompanying notes.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
NONOPERATING ACTIVITIES				
Investment income	6,432	21,168	-	27,600
CHANGE IN NET ASSETS	179,012	2,510,056	(284,585)	2,404,483
NET ASSETS AT BEGINNING OF YEAR	<u>156,872</u>	<u>1,284,187</u>	<u>5,649,420</u>	<u>7,090,479</u>
NET ASSETS AT END OF YEAR	<u>\$ 335,884</u>	<u>\$ 3,794,243</u>	<u>\$ 5,364,835</u>	<u>\$ 9,494,962</u>

BOYS & GIRLS CLUBS OF THE EAST VALLEY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2016

	<u>Boys & Girls Clubs</u>	<u>Mesa Arts Academy</u>	<u>Fundraising</u>
Personnel expenses	\$ 3,097,596	\$ 1,260,147	\$ 291,763
Professional services and subcontracts	168,841	26,849	55,753
In-kind contributions, services and materials	1,403,072	-	11,500
Supplies	30,181	172,790	2,299
Program service expense	363,415	107,413	-
Telecommunications	41,457	-	5,953
Postage and shipping	570	49	1,727
Occupancy	726,709	192,699	18,296
Equipment rental and repair	25,350	-	2,887
Depreciation and amortization	585,765	-	19,147
Printing and publications	7,835	-	940
Vehicle costs	52,648	679	10,656
Training, conferences and meetings	39,872	9,024	11,405
Membership dues	25,391	1,910	8,027
Specific assist to individuals	51,076	-	-
Interest, bank charges and miscellaneous	67,994	-	13,984
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TOTAL FUNCTIONAL EXPENSES	6,687,772	1,771,560	454,337
	<hr/>	<hr/>	<hr/>
DIRECT DONOR BENEFITS	-	-	291,478
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TOTAL EXPENSES	<u>\$ 6,687,772</u>	<u>\$ 1,771,560</u>	<u>\$ 745,815</u>

<u>Management and General</u>		<u>Total</u>	
\$	281,497	\$	4,931,003
	20,596		272,039
	-		1,414,572
	9,782		215,052
	-		470,828
	5,051		52,461
	3,308		5,654
	59,115		996,819
	2,888		31,125
	74,650		679,562
	1,394		10,169
	3,197		67,180
	6,646		66,947
	3,149		38,477
	-		51,076
	10,740		92,718
	<u>482,013</u>		<u>9,395,682</u>
	-		<u>291,478</u>
\$	<u>482,013</u>	\$	<u>9,687,160</u>

BOYS & GIRLS CLUBS OF THE EAST VALLEY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2015

	<u>Boys & Girls Clubs</u>	<u>Mesa Arts Academy</u>	<u>Fundraising</u>
Personnel expenses	\$ 3,248,987	\$ 1,194,754	\$ 392,129
Professional services and subcontracts	164,551	24,985	37,409
In-kind contributions, services and materials	1,416,120	-	11,145
Supplies	23,335	118,718	4,934
Program service expense	318,753	99,099	-
Telecommunications	40,126	-	6,053
Postage and shipping	486	-	1,603
Occupancy	752,128	8,787	25,148
Equipment rental and repair	24,226	-	2,912
Depreciation and amortization	431,827	-	37,158
Printing and publications	8,255	1,411	3,382
Vehicle costs	63,512	460	15,054
Training, conferences and meetings	29,139	10,770	32,811
Membership dues	26,356	75	6,646
Educational awards	40,828	-	-
Interest, bank charges and miscellaneous	61,040	109	14,744
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TOTAL FUNCTIONAL EXPENSES	6,649,669	1,459,168	591,128
	<hr/>	<hr/>	<hr/>
DIRECT DONOR BENEFITS	-	-	324,647
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TOTAL EXPENSES	<u>\$ 6,649,669</u>	<u>\$ 1,459,168</u>	<u>\$ 915,775</u>

<u>Management and General</u>		<u>Total</u>	
\$	349,349	\$	5,185,219
	17,124		244,069
	-		1,427,265
	12,280		159,267
	-		417,852
	5,332		51,511
	3,294		5,383
	28,665		814,728
	2,913		30,051
	85,786		554,771
	1,819		14,867
	3,980		83,006
	5,556		78,276
	2,371		35,448
	-		40,828
	10,541		86,434
	<hr/>		<hr/>
	529,010		9,228,975
	-		324,647
	<hr/>		<hr/>
\$	<u>529,010</u>	\$	<u>9,553,622</u>

BOYS & GIRLS CLUBS OF THE EAST VALLEY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015 *</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (136,651)	\$ 2,404,483
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	679,562	554,771
Loss on disposal of property	-	10,659
Contributed land	-	(2,700,000)
Realized/unrealized gain on investments	(14,509)	(15,133)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Grants, contracts, and United Way receivables	(48,702)	140,624
Promises to give	517,905	(500,994)
Prepaid expenses and other assets	(22,273)	15,435
Increase (decrease) in:		
Accounts payable	(325,072)	608,349
Accrued liabilities	(12,427)	68,007
Deferred revenues	(130,086)	37,842
Net cash provided by operating activities	<u>507,747</u>	<u>624,043</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	126,940	45,078
Purchases of investments	(119,471)	(55,555)
Purchases of property and equipment	(147,247)	(1,000,395)
Net cash used by investing activities	<u>(139,778)</u>	<u>(1,010,872)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	506,000	918,000
Payments on long-term debt	(3,716)	(4,139)
Payments on line of credit	(730,000)	(594,000)
Payments on obligations under capital lease	(41,450)	(51,017)
Net cash provided (used) by financing activities	<u>(269,166)</u>	<u>268,844</u>
NET INCREASE (DECREASE) IN CASH	98,803	(117,985)
CASH BEGINNING OF YEAR	<u>358,168</u>	<u>476,153</u>
CASH END OF YEAR	<u>\$ 456,971</u>	<u>\$ 358,168</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 53,448</u>	<u>\$ 54,267</u>
Equipment acquired under capital lease	<u>\$ -</u>	<u>\$ 51,905</u>

* Restated to conform to current year presentation.

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Nature of Operations

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

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

Basis of Presentation

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

Cash and Cash Equivalents

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

Grants and Contracts Receivable

Grants and contracts receivable are due from local organizations and governmental entities and are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance, if needed, based on its assessment of the current status of the individual amounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to grants and contracts receivable. At June 30, 2016 and 2015 all receivables were considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

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

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give 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 recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in support from contributions.

Property and Equipment

The Club capitalizes all expenditures in excess of \$1,000 for property and equipment at cost. Contributed property and equipment is recorded at fair value at the date of donation. Depreciation, which includes the amortization of assets recorded under capital leases, is provided on the straight-line method over their estimated useful lives. Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

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

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).

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

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

Fair Value Measurements and Investments (Continued)

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

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

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

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

Risks and Uncertainties

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

Endowment Fund

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

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

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

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

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

Endowment Fund (Continued)

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

Spending Policy - The Club has not established a formal spending policy of endowment funds. The Club requests funds from the Endowment for scholarship needs of club members. The amounts appropriated for scholarship are approved by the board.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the existence and/or nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted support, where restrictions are met in the same period as the donation is made, is shown as additions to restricted net assets and released.

Donated Materials and Services

Donated materials and donated land are reflected as contributions in the accompanying financial statements at their estimated fair values at the date of receipt. Donated services are recognized as contributions in accordance with generally accepted accounting principles if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. No amounts have been reflected in the accompanying financial statements for certain donated volunteer services because they do not qualify for recording under the guidelines of generally accepted accounting principles; however, a substantial number of volunteers have donated significant amounts of their time in the Club's program services and fundraising campaigns. The Club estimates the fair value of contributed services during the year that are not reflected in the accompanying financial statements to be \$48,500 for 2016 and \$23,250 for 2015.

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

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

Special Events Revenue

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

Functional Expenses

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

Income Taxes

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

The Club recognizes uncertainty in income taxes in the financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of June 30, 2016 and 2015, 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, 2016 and 2015, the Club did not have any income tax related interest and penalties expense.

Use of Estimates

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

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

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

Reclassifications

Certain reclassifications have been made to the June 30, 2015 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Date of Management's Review

In preparing these financial statements, the Club has evaluated events and transactions for potential recognition or disclosure through November 9, 2016 the date the financial statements were available to be issued.

NOTE 2 CONCENTRATIONS OF CREDIT RISK

Financial instruments that subject the Club to potential concentrations of credit risk consist principally of cash and cash equivalents and receivables. The Club maintains its cash in several bank accounts, which at times may exceed federally insured limits. At June 30, 2016, bank balances exceeded federally insured limits by approximately \$94,000. At June 30, 2015, bank balances did not exceed federally insured limits. The United Way receivable represents approximately 51% and 85% of the total receivables for the years ended June 30, 2016 and 2015, 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 statement of financial position for the years ended June 30, 2016 and 2015 is \$66,774 and \$74,773, 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.

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016 and 2015

NOTE 3 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments with readily determinable fair values are measured at fair value in the statements of financial position as determined by quoted market prices in active markets. The following is a summary of these assets measured at fair value on a recurring basis at June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market funds	\$ 54,652	\$ -	\$ -	\$ 54,652
Common stocks	222,754	-	-	222,754
Mutual funds	<u>382,255</u>	<u>-</u>	<u>-</u>	<u>382,255</u>
Total Investments	<u>\$ 659,661</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 659,661</u>

The following is a summary of these assets measured at fair value on a recurring basis at June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market funds	\$ 55,732	\$ -	\$ -	\$ 55,732
Common stocks	244,902	-	-	244,902
Mutual funds	<u>351,987</u>	<u>-</u>	<u>-</u>	<u>351,987</u>
Total Investments	<u>\$ 652,621</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 652,621</u>

The following schedule summarizes the investment return for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 12,784	\$ 12,467
Net realized and unrealized gains	<u>14,509</u>	<u>15,133</u>
	<u>\$ 27,293</u>	<u>\$ 27,600</u>

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016 and 2015

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 2,725,000	\$ 2,725,000
Buildings and improvements	7,256,734	7,256,734
Leasehold improvements	2,592,572	2,485,803
Furniture and equipment	2,613,947	3,081,253
Vehicles	788,589	788,589
Equipment held under capital leases	<u>221,995</u>	<u>221,995</u>
Total cost or donated value	16,198,837	16,559,374
Accumulated depreciation and amortization	<u>(7,119,098)</u>	<u>(6,947,320)</u>
Net property and equipment	<u><u>\$ 9,079,739</u></u>	<u><u>\$ 9,612,054</u></u>

Depreciation and amortization expense charged to operations was \$679,562 and \$554,771 for the years ending June 30, 2016 and 2015, respectively. The assets and liabilities under capital leases are recorded at the fair market value of the leased equipment. 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 \$145,766 and \$127,496 of accumulated amortization on equipment held under capital leases at June 30, 2016 and 2015, respectively.

NOTE 5 NOTES AND LEASES PAYABLE

The Club leases certain office equipment under capital leases. The leases expire at various times through March 2018 and bear interest at 8.5%. Future minimum lease payments and maturities under the capital lease obligations at June 30, 2016 are as follows:

<u>Years Ending June 30,</u>	<u>Minimum Lease Payment</u>	<u>Interest</u>	<u>Net Minimum Lease Payment</u>
2017	84,801	27,650	57,151
2018	60,767	12,814	47,953
2019	<u>6,349</u>	<u>1,745</u>	<u>4,604</u>
Total	<u><u>\$ 151,917</u></u>	<u><u>\$ 42,209</u></u>	<u><u>\$ 109,708</u></u>

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016 and 2015

NOTE 5 NOTES AND LEASES PAYABLE (Continued)

Notes payable consists of a non-interest bearing note payable collateralized by a vehicle. Payments of \$365 are payable monthly. This note matures in January 2020.

NOTE 6 LINE OF CREDIT

The Club has a \$500,000 operating line of credit with a bank, with interest payable at LIBOR rate plus 4.19%. The line of credit matures in March 2017. At June 30, 2016 and 2015, the outstanding balance on this line of credit agreement was \$100,000 and \$324,000, respectively.

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2016 and 2015:

	2016	2015
Portion of permanent endowment funds subject to restrictions under MCFA	\$ 131,738	\$ 115,951
United Way contributions	272,448	412,192
Capital campaign	148,376	148,376
Promises to give and foundation grants receivable	113,250	190,450
Property and equipment	2,806,585	2,823,317
Scholarships	85,882	103,957
Total temporarily restricted net assets	\$ 3,558,279	\$ 3,794,243

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

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2016 and 2015

NOTE 8 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Property and equipment	\$ 4,565,801	\$ 4,860,292
Endowment fund principal-operations	61,000	61,000
Endowment fund principal-scholarships	<u>443,543</u>	<u>443,543</u>
Total permanently restricted net assets	<u>\$ 5,070,344</u>	<u>\$ 5,364,835</u>

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

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

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

NOTE 9 ENDOWMENT FUNDS

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

	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor designated	<u>\$ -</u>	<u>\$ 131,738</u>	<u>\$ 504,543</u>	<u>\$ 636,281</u>
	<u>2015</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor designated	<u>\$ -</u>	<u>\$ 115,951</u>	<u>\$ 504,543</u>	<u>\$ 620,494</u>

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 9 ENDOWMENT FUNDS (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2014	\$ -	\$ 139,244	\$ 504,543	\$ 643,787
Interest and dividends	-	9,468	-	9,468
Realized and unrealized gain	-	11,700	-	11,700
Investment fees	-	(4,996)	-	(4,996)
Amounts appropriated for expenditure	-	(39,465)	-	(39,465)
Balance at June 30, 2015	-	115,951	504,543	620,494
Interest and dividends	-	9,603	-	9,603
Realized and unrealized gain	-	11,097	-	11,097
Investment fees	-	(4,913)	-	(4,913)
Amounts appropriated for expenditure	-	-	-	-
Balance at June 30, 2016	<u>\$ -</u>	<u>\$ 131,738</u>	<u>\$ 504,543</u>	<u>\$ 636,281</u>

NOTE 10 PENSION PLAN

The Club has a contributory defined contribution pension plan for all employees who meet specified age and service requirements. The plan is administered by Mutual of America. The Club makes annual contributions in the amount of 5% of eligible salaries. Total pension expense was \$86,054 for 2016 and \$140,026 for 2015.

NOTE 11 TAX-DEFERRED ANNUITY PLAN

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

NOTE 12 OPERATING LEASES

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

BOYS AND GIRLS CLUBS OF THE EAST VALLEY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 12 OPERATING LEASES (Continued)

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

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, 2017.

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

The Club leases its administrative offices under an operating lease for \$5,030 per month, expiring in March 2020. The lease does not provide for renewal options, however, in the normal course of business, operating leases are generally renewed or replaced by other leases. Rent expense for these leases were \$68,809 and \$61,943 for the years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments (excluding in-kind rent) under operating leases that have remaining terms in excess of one year as of June 30, 2016 are as follows:

2017	\$	60,360
2018		60,360
2019		60,360
2020		<u>45,270</u>
	\$	<u><u>226,350</u></u>

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REPORT ON INTERNAL CONTROL AND COMPLIANCE SECTION

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HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Boys & Girls Clubs of the East Valley (the Club), which comprise the statements of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 9, 2016.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Club's internal control. Accordingly, we do not express an opinion on the effectiveness of Boys & Girls Clubs of the East Valley's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Boys & Girls Clubs of the East Valley's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Kay. Koz, CPA". The signature is stylized and cursive.

Casa Grande, Arizona
November 9, 2016