

**BOYS AND GIRLS CLUB  
OF GREATER SCOTTSDALE, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2018 AND 2017**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.  
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## INDEPENDENT AUDITORS' REPORT

Board of Governors  
Boys and Girls Club of Greater Scottsdale, Inc.  
Phoenix, Arizona

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Boys and Girls Club of Greater Scottsdale, Inc., which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Governors  
Boys and Girls Club of Greater Scottsdale, Inc.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boys and Girls Club of Greater Scottsdale, Inc., as of June 30, 2018 and 2017, and changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the schedules attached is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Phoenix, Arizona  
December 13, 2018

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 469,543	\$ 742,348
Receivables	521,100	274,270
Interest Receivable on Investments	24,742	37,496
Pledges Receivable	26,300	28,500
Prepaid Expenses	32,816	8,008
Total Current Assets	1,074,501	1,090,622
<b>INVESTMENTS</b>	17,761,400	17,786,465
<b>SPLIT INTEREST AGREEMENTS</b>	1,072,618	880,157
<b>PROPERTY AND EQUIPMENT, Net</b>	14,816,975	12,143,949
<b>ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT</b>		
Cash	64,283	1,555,401
Total Assets	\$ 34,789,777	\$ 33,456,594
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	\$ 747,862	\$ 754,489
Other Liabilities	249,513	210,044
Capital Lease Obligation, Current Portion	22,535	-
HVAC Note Payable, Current Portion	12,115	11,699
Line of Credit	800,000	-
Present Value of Annuity Payments, Current Portion	7,586	63,777
Total Current Liabilities	1,839,611	1,040,009
<b>CAPITAL LEASE OBLIGATION, Net of Current Portion</b>	103,866	-
<b>HVAC NOTE PAYABLE, Net of Current Portion</b>	71,043	83,159
<b>PRESENT VALUE OF ANNUITY PAYMENTS, Net of Current Portion</b>	70,425	171,540
Total Liabilities	2,084,945	1,294,708
<b>NET ASSETS</b>		
Unrestricted	32,005,634	29,852,995
Temporarily Restricted	506,486	2,126,179
Permanently Restricted	192,712	182,712
Total Net Assets	32,704,832	32,161,886
Total Liabilities and Net Assets	\$ 34,789,777	\$ 33,456,594

See accompanying Notes to Consolidated Financial Statements.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE</b>				
Public Support:				
Contributions, Net	\$ 322,958	\$ 2,200,680	\$ 10,000	\$ 2,533,638
Bequests	292,850	-	-	292,850
Grants	1,814,036	-	-	1,814,036
Program Service Fees	3,074,260	-	-	3,074,260
Donated Services, Materials and Facilities	302,862	-	-	302,862
Membership Income	104,580	-	-	104,580
Thrift Store	243,288	-	-	243,288
Change in Value of Split Interest				
Agreements, Net	92,461	-	-	92,461
Miscellaneous	8,402	-	-	8,402
Total Public Support	<u>6,255,697</u>	<u>2,200,680</u>	<u>10,000</u>	<u>8,466,377</u>
Revenues:				
Investment Income	355,795	-	-	355,795
Realized/Unrealized Gains on Investments, Net	729,042	48,909	-	777,951
Other	106,285	-	-	106,285
Total Revenue	<u>1,191,122</u>	<u>48,909</u>	<u>-</u>	<u>1,240,031</u>
Total Public Support and Revenue Before Special Events and Net Assets Released from Restrictions	7,446,819	2,249,589	10,000	9,706,408
Special Events Revenue	1,256,799	-	-	1,256,799
Less: Costs of Direct Donor Benefits	(393,417)	-	-	(393,417)
Gross Profit from Special Events	<u>863,382</u>	<u>-</u>	<u>-</u>	<u>863,382</u>
Net Assets Released From Restrictions	<u>3,869,282</u>	<u>(3,869,282)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>12,179,483</u>	<u>(1,619,693)</u>	<u>10,000</u>	<u>10,569,790</u>
<b>EXPENSES AND LOSSES</b>				
Comprehensive Youth Development	7,677,849	-	-	7,677,849
Management and General	1,096,343	-	-	1,096,343
Fundraising	1,252,652	-	-	1,252,652
Total Expenses and Losses	<u>10,026,844</u>	<u>-</u>	<u>-</u>	<u>10,026,844</u>
<b>CHANGES IN NET ASSETS</b>	2,152,639	(1,619,693)	10,000	542,946
Net Assets - Beginning of Year	<u>29,852,995</u>	<u>2,126,179</u>	<u>182,712</u>	<u>32,161,886</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 32,005,634</u>	<u>\$ 506,486</u>	<u>\$ 192,712</u>	<u>\$ 32,704,832</u>

See accompanying Notes to Consolidated Financial Statements.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE</b>				
Public Support:				
Contributions, Net	\$ 801,628	\$ 1,530,393	\$ -	\$ 2,332,021
Bequests	163,832	-	-	163,832
Grants	1,791,254	-	-	1,791,254
Program Service Fees	3,097,475	-	-	3,097,475
Donated Services, Materials and Facilities	697,769	130,683	-	828,452
Membership Income	131,696	-	-	131,696
Thrift Store	212,246	-	-	212,246
Change in Value of Split Interest				
Agreements, Net	(5,480)	-	-	(5,480)
Miscellaneous	14,173	-	-	14,173
Total Public Support	<u>6,904,593</u>	<u>1,661,076</u>	<u>-</u>	<u>8,565,669</u>
Revenues:				
Investment Income	371,698	-	-	371,698
Realized/Unrealized Gains on Investments, Net	1,733,879	-	-	1,733,879
Other	110,784	-	-	110,784
Total Revenue	<u>2,216,361</u>	<u>-</u>	<u>-</u>	<u>2,216,361</u>
Total Public Support and Revenue Before Special Events and Net Assets Released from Restrictions	9,120,954	1,661,076	-	10,782,030
Special Events Revenue	764,409	-	-	764,409
Less: Costs of Direct Donor Benefits	(386,455)	-	-	(386,455)
	<u>377,954</u>	<u>-</u>	<u>-</u>	<u>377,954</u>
Net Assets Released From Restrictions	<u>717,175</u>	<u>(717,175)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>10,216,083</u>	<u>943,901</u>	<u>-</u>	<u>11,159,984</u>
<b>EXPENSES AND LOSSES</b>				
Comprehensive Youth Development	6,943,460	-	-	6,943,460
Management and General	991,139	-	-	991,139
Fundraising	1,435,462	-	-	1,435,462
Total Expenses and Losses	<u>9,370,061</u>	<u>-</u>	<u>-</u>	<u>9,370,061</u>
<b>CHANGES IN NET ASSETS</b>	846,022	943,901	-	1,789,923
Net Assets - Beginning of Year	<u>29,006,973</u>	<u>1,182,278</u>	<u>182,712</u>	<u>30,371,963</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 29,852,995</u>	<u>\$ 2,126,179</u>	<u>\$ 182,712</u>	<u>\$ 32,161,886</u>

See accompanying Notes to Consolidated Financial Statements.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2018**

	Program Services	Supporting Services		Total Functional Expenses
	Comprehensive Youth Development	Management and General	Fundraising	
<b>EXPENSES</b>				
Salaries	\$ 3,516,258	\$ 438,181	\$ 663,568	\$ 4,618,007
Employee Benefits	396,503	57,591	129,291	583,385
Payroll Taxes	324,298	34,810	47,746	406,854
Contracted Professional Services	315,186	159,767	23,180	498,133
Occupancy	471,065	36,775	29,444	537,284
Contracted Services/Leases	390,785	24,511	353,409	768,705
Office Supplies	18,873	10,051	9,078	38,002
Computer Equipment Services	113,711	3,218	3,307	120,236
Postage and Shipping	3,695	731	5,005	9,431
Printing and Promotions	11,485	6,997	51,531	70,013
Program Supplies	844,501	-	-	844,501
Program Awards and Scholarships	70,363	995	28	71,386
Meetings and Conferences	21,660	97,509	43,814	162,983
Travel Expenses	16,461	22,044	6,769	45,274
Local Transportation	82,840	5,177	713	88,730
Dues, Fees, and Subscriptions	59,530	24,433	28,271	112,234
Insurance	122,965	15,211	3,726	141,902
Banking and Merchant Fees	34,084	24,295	105,000	163,379
Interest Expense	3,134	8,172	-	11,306
Donated Services and Materials	134,488	43,361	118,023	295,872
Bad Debt Expense	45,371	-	-	45,371
Special Events/Fundraising	4,009	-	17,714	21,723
Miscellaneous Expense	-	6,638	292	6,930
Depreciation	676,584	75,876	6,160	758,620
Less: Direct Donor Benefits	-	-	(393,417)	(393,417)
<b>Total Functional Expenses</b>	<b>\$ 7,677,849</b>	<b>\$ 1,096,343</b>	<b>\$ 1,252,652</b>	<b>\$ 10,026,844</b>

See accompanying Notes to Consolidated Financial Statements.



**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2017**

	Program Services		Supporting Services		Total Functional Expenses
	Comprehensive Youth Development	Management and General	Fundraising		
<b>EXPENSES</b>					
Salaries	\$ 3,188,549	\$ 387,070	\$ 695,914	\$ 4,271,533	
Employee Benefits	330,685	64,036	91,481	486,202	
Payroll Taxes	278,429	57,935	50,246	386,610	
Contracted Professional Services	355,437	166,117	148,256	669,810	
Occupancy	437,620	42,624	31,036	511,280	
Contracted Services/Leases	247,041	87,646	371,675	706,362	
Office Supplies	29,338	12,496	8,594	50,428	
Computer Equipment Services	54,887	5,472	6,086	66,445	
Postage and Shipping	5,508	1,996	2,143	9,647	
Printing and Promotions	8,468	2,438	60,333	71,239	
Program Supplies	808,138	-	-	808,138	
Program Awards and Scholarships	22,476	1,821	2,428	26,725	
Meetings and Conferences	22,078	58,268	29,467	109,813	
Travel Expenses	14,080	38,639	15,001	67,720	
Local Transportation	69,766	5,701	1,588	77,055	
Dues, Fees, and Subscriptions	56,021	18,358	22,293	96,672	
Insurance	147,907	15,637	4,522	168,066	
Banking and Merchant Fees	40,769	9,297	90,370	140,436	
Interest Expense	9,405	775	1,308	11,488	
Donated Services and Materials	71,500	11,969	160,546	244,015	
Bad Debt Expense	23,415	-	-	23,415	
Special Events/Fundraising	6,940	-	18,672	25,612	
Miscellaneous Expense	287	505	191	983	
Depreciation	714,716	2,339	9,767	726,822	
Less: Direct Donor Benefits	-	-	(386,455)	(386,455)	
Total Functional Expenses	\$ 6,943,460	\$ 991,139	\$ 1,435,462	\$ 9,370,061	

See accompanying Notes to Consolidated Financial Statements.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 542,946	\$ 1,789,923
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Provision for Bad Debts	45,371	23,415
Depreciation and Amortization	758,620	726,822
Realized Gains on Investments	(1,271,318)	(283,071)
Unrealized Gains on Investments	493,367	(1,450,808)
Change in Value of Split Interest Agreements, Net	(92,461)	5,480
Contributions of Property and Equipment	(20,550)	(456,443)
Contributions of Split-Interest Agreements	(100,000)	(100,000)
Increase (Decrease) in Cash Resulting from Changes in:		
Receivables	(292,201)	645,256
Interest Receivable on Investments	12,754	1,138
Prepaid Expenses	(24,808)	15,239
Pledge Receivable	2,200	(28,500)
Accounts Payable and Accrued Liabilities	(6,627)	104,181
Other Liabilities	39,469	(24,486)
Present Value of Annuity Payments	(157,306)	9,505
Net Cash Provided (Used) by Operating Activities	(70,544)	977,651
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(3,259,096)	(174,761)
Purchase of Investments	(1,030,088)	(1,949,856)
Proceeds from Sale of Investments	1,833,104	1,708,639
Payments Received from Notes Receivable	-	893,195
Change in Assets Restricted to Investment in Property and Equipment	1,491,118	(1,163,214)
Net Cash Used by Investing Activities	(964,962)	(685,997)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds (Payments) of Capital Lease Obligations	(25,599)	(47,374)
Proceeds from Line of Credit	800,000	-
Payments of HVAC Payable	(11,700)	(11,297)
Net Cash Provided (Used) by Financing Activities	762,701	(58,671)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(272,805)	232,983
Cash and Cash Equivalents - Beginning of Year	742,348	509,365
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 469,543	\$ 742,348
<b>SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	\$ 11,306	\$ 11,488
<b>SUPPLEMENTARY DISCLOSURE OF NONCASH INVESTING ACTIVITY</b>		
Assets Acquired through Capital Lease	\$ 152,000	\$ -

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Organization**

Boys and Girls Club of Greater Scottsdale, Inc. and Subsidiary (the Clubs) is an Arizona corporation formed in June 1954 to promote the physical, mental, and moral well-being of boys and girls by providing education, recreation, and guidance. On December 22, 2011, the Clubs formed Boys & Girls Clubs of Greater Scottsdale Youth, LLC (the Subsidiary), with the Clubs as the sole member. Boys & Girls Clubs of Greater Scottsdale Youth, LLC was formed to hold certain club assets in order to qualify for the working poor tax credit. On January 5, 2018, the Clubs formed Boys & Girls Clubs of Greater Scottsdale Foster Children, LLC with the clubs as the sole member. The Boys & Girls Clubs of Greater Scottsdale Foster Children, LLC was formed to hold certain club assets in order to be a qualifying foster care charitable organization and received Arizona tax credit contributions. The Clubs operate several facilities in Scottsdale: the Virginia G. Piper Branch, the Hartley and Ruth Barker Branch, the Thunderbirds Branch, Charros Branch, the Vestar Branch in Phoenix, and the McKee Branch in Fountain Hills. The Clubs are also involved in the Red Mountain and Lehi facilities in conjunction with the Salt River Pima-Maricopa Indian Community and the Peach Springs Branch in conjunction with the Hualapai tribal community. The Clubs serve approximately 20,100 boys and girls including approximately 9,800 in their after school and summer day camp programs. The Clubs also operate a thrift store in Scottsdale for fundraising purposes.

Boys & Girls Clubs of Greater Scottsdale Foundation (the Foundation) was incorporated in January 1994 with the Clubs as the sole corporate member of the Foundation. The Foundation was organized to manage investment funds, with the income to be used for the benefit of the Clubs. On December 28, 2017, the Clubs formed BGCGSF Apache Holdings LLC with the Clubs as the sole member. The BGCGSF Apache Holdings LLC was formed to hold title to contributed land.

The significant accounting policies followed by the Clubs, its Subsidiary and Foundation (collectively referred to herein as the Organization) are as follows:

**Consolidated Financial Statements**

The consolidated financial statements include the accounts of the Boys and Girls Club of Greater Scottsdale, Inc., Boys & Girls Clubs of Greater Scottsdale Youth, LLC, Boys and Girls Clubs of Greater Scottsdale Foster Children, LLC, Boys and Girls Clubs of Greater Scottsdale Apache Holding, LLC, and Boys and Girls Clubs of Greater Scottsdale Foundation. All of the financial activities and balances of these organizations are included in these consolidated financial statements. All significant interorganization accounts and transactions have been eliminated in consolidation.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation**

The Club's financial statements have been prepared in accordance with the American Institute of Certified Public Accountants (AICPA) Not-For-Profit Industry Guidance within the Financial Accounting Standards Board (FASB) Codification (Guidance). Under the Guidance, the Organization is required to provide financial statements which are prepared to focus on the organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets as follows:

Unrestricted Net Assets – Unrestricted net assets are not subject to donor-imposed stipulations and are those currently available at the discretion of the board of governors for use in the Organization's operations, in accordance with its bylaws. Temporarily restricted assets received and expended in the same year are classified as unrestricted.

Temporarily Restricted Net Assets – Temporarily restricted net assets are those which are subject to donor-imposed stipulations that will be met by the Organization and/or the passage of time.

Permanently Restricted Net Assets – Permanently restricted net assets are those which represent permanent endowments where it is stipulated by donors that the total aggregate contributions remain in perpetuity. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for unrestricted purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted explicitly by donor stipulation or by law. Expirations of temporary restrictions on net assets, i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as reclassifications to unrestricted net assets.

**Use of Estimates in the Preparation of Consolidated Financial Statements**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents may, at times, include cash equivalents, which consist of highly liquid investments with original maturities of three months or less when acquired.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Receivables**

Receivables consist primarily of amounts due from various agencies and individuals and are unsecured. Accounts receivable are stated at the amount management expects to collect. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Management provides for probable, uncollectible amounts through a charge to operations and a credit to a valuation allowance based on the assessment of the current status of individual balances. Management reviews all accounts receivable balances monthly and based on an assessment of creditworthiness, estimates the portion, if any, of the balances that will not be collected. The Organization considers all receivables past due over 90 days to be delinquent. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a decrease to accounts receivable. Management considers the receivables to be fully collectible and, accordingly, an allowance for uncollectable is not deemed necessary.

**Note Receivable**

The Clubs entered into a promissory note receivable in January 2016 resulting from the sale of real estate and secured by a deed of trust in the principal amount of \$900,000. Interest at 5% per annum and principal payments are due monthly in the amount of \$5,000 until maturity, which was January 2017, and further extended until April 2017 on essentially the same terms and conditions. Interest income is recognized as interest payments are received. As of June 30, 2017, the promissory note receivable was considered current and, accordingly, there was no provision or allowance for credit losses. The note receivable was collected in full in 2017. Interest received on the promissory note receivable through June 30, 2018 and 2017 totaled approximately \$0 and \$10,600, respectively.

**Pledges Receivable**

Unconditional promises to give (pledges receivable) 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. Monies received pursuant to conditional promises are reflected as deferred revenue. Unconditional promises to give that are to be collected within one year are recorded at their 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 those amounts are computed using rates as determined by management, applicable to the years in which the promises are received. Amortization of the discounts is included in contribution support. The carrying amount of pledges receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected.

**Bequests**

Bequests are recognized as contribution revenue in the period the Foundation receives notification the court has found the will of the donor's estate to be valid and all conditions have been substantially met.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Special Events Revenue**

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

**Grants**

The Clubs receive various grants from different sources to perform specific services. The Clubs recognize revenue from these grants as services are provided. Deferred revenues are recorded when cash advances exceed amounts earned, if any.

**Investments**

Investments, consisting primarily of equities and mutual funds with readily determinable market values are measured at fair value as of year-end in the consolidated statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) are recognized in the consolidated statements of activities and changes in net assets.

**Property and Equipment**

Purchased property and equipment are initially recorded at cost, and donated property and equipment are recorded at fair value at the date of the gift to the Clubs. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$2,500 and leasehold improvements in excess of \$2,500 are capitalized. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation and amortization accounts are relieved, and any gain or loss is included in operations. Depreciation and amortization is provided using the straight-line method over the respective useful lives of the assets, which range from 3 to 40 years. Leasehold improvements are amortized over the shorter of the useful lives of the improvements or the lease terms.

**Assets Restricted to Investment in Property and Equipment**

Assets restricted to investment in property and equipment consist of capital campaign pledges that are restricted by donors for building an additional club and improvements to other specific clubs.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment of Long-Lived Assets**

The Clubs review 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 were present at June 30, 2018 and 2017.

**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 nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished or a donor removes a restriction), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Restricted support, where the restriction is met in the same period as the donation is made, is shown as an addition to unrestricted support.

**Program Service Fees**

The Clubs record revenues from program service fees over the applicable membership period. The unearned portion of the program service fees is recorded in other liabilities at June 30, 2018 and 2017, in the accompanying consolidated statements of financial position.

**Donated Services and Material**

Donated materials are recognized as contributions 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. The Clubs utilizes the services of volunteers to perform a variety of tasks that assist the Clubs with specific programs. This support has not been recorded, as it does not meet the recognition criteria; however, a substantial number of volunteers have donated significant amounts of their time in the Clubs' and Foundation's program services and fundraising campaigns. During 2018 and 2017, the Clubs received the following donated items:

	<u>Used for</u>	<u>2018</u>	<u>2017</u>
Services and Materials	Programs	\$ 282,312	\$ 372,009
Property and Equipment	Programs	20,550	456,443

**Functional Expenses**

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

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Tax Status**

The Clubs and Foundation qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the Code), and accordingly, there is no provision for corporate income taxes in the accompanying consolidated financial statements. In addition, The Clubs and Foundation qualify for the charitable contribution deduction under Section 170 of the Code and has been classified as organizations that are not private foundations. Income determined to be unrelated business taxable income (UBTI) would be taxable. Boys and Girls Clubs of Greater Scottsdale Youth, LLC is treated as a disregarded entity for income tax purposes, and accordingly, all income and expenses are passed through to the Clubs.

Management does not believe the Clubs or Foundation have any UBTI for the years ended June 30, 2018 and 2017.

The Clubs and Foundation evaluate their uncertain tax positions, if any, on a continued basis through review of their policies and procedures, and review of their regular tax filings.

**Market Risk**

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

**Reclassification**

Certain items in the prior year combined financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on total assets or changes in net assets as previously reported.

**NOTE 2 RECEIVABLES**

As of June 30, receivables consisted of:

	2018	2017
Current Receivables:		
Bequest Receivable	\$ 281,319	\$ -
Operating Receivables	53,971	-
Grants Receivable	132,597	241,364
Program Receivables	53,213	32,906
Total Receivables	521,100	274,270
Interest Receivable on Investment	24,742	37,496
Pledges Receivable Due in Less Than One Year	26,300	28,500
	572,142	340,266
Total Current Receivables	\$ 572,142	\$ 340,266



**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 2 RECEIVABLES (CONTINUED)**

One contributor made up 49% of the total receivable balance as of June 30, 2018. One contributor makes up 66% of the total receivable balance as of June 30, 2017.

Pledge receivables of \$26,300 as of June 30, 2018 are due in full within one year.

Management considers the receivables to be fully collectible and, accordingly, an allowance for uncollectable was not deemed as of June 30, 2018 and 2017.

**NOTE 3 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the 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). The three levels of the fair value hierarchy are described as follows:

*Level 1* – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization 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 (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3* – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

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

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 3 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Intermediate Duration - Fixed				
Income	\$ 3,703,318	\$ -	\$ -	\$ 3,703,318
International Equities	2,880,309	-	-	2,880,309
Mid Cap	1,385,119	-	-	1,385,119
Large Cap	6,329,507	-	-	6,329,507
Small Cap	914,079	-	-	914,079
Private Equity Instruments	-	121,562	-	121,562
Debt Securities:				
Corporate Bonds	-	611,944	-	611,944
Government and Agency Bonds	-	1,244,660	-	1,244,660
International Bonds	-	180,075	-	180,075
Mortgage and Asset Backed Bonds	-	1,042,721	-	1,042,721
Other	-	25,442	-	25,442
Cash	-	-	-	395,282
Total Investments	<u>\$ 15,212,332</u>	<u>\$ 3,226,404</u>	<u>\$ -</u>	<u>\$ 18,834,018</u>

The following table summarizes the nature and risk of the private equity instruments and investments as of June 30, 2018:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited Partnership Interest	\$ 121,562	\$ -	Monthly	15 Days
Total	<u>\$ 121,562</u>	<u>\$ -</u>		

Expenses relating to investment income, including custodial fees and investment advisory fees, of \$78,359 were charged to operations during the year ended June 30, 2018.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 3 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Intermediate Duration - Fixed				
Income	\$ 3,167,918	\$ -	\$ -	\$ 3,167,918
International Equities	3,106,601	-	-	3,106,601
Mid Cap	1,857,735	-	-	1,857,735
Large Cap	5,108,729	-	-	5,108,729
Small Cap	183,427	-	-	183,427
Private Equity Instruments	-	107,329	-	107,329
Debt Securities:				
Corporate Bonds	-	743,583	-	743,583
Government and Agency Bonds	-	1,226,494	-	1,226,494
International Bonds	-	127,090	-	127,090
Mortgage and Asset Backed Bonds	-	1,187,479	-	1,187,479
Cash	-	-	-	822,205
Total Investments	<u>\$ 14,452,442</u>	<u>\$ 3,391,975</u>	<u>\$ -</u>	<u>\$ 18,666,622</u>

The following table summarizes the nature and risk of the private equity instruments and investments as of June 30, 2017:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited Partnership Interest	\$ 107,329	\$ -	Monthly	15 Days
Total	<u>\$ 107,329</u>	<u>\$ -</u>		

Expenses relating to investment income, including custodial fees and investment advisory fees, of \$74,905 were charged to operations during the year ended June 30, 2017.

The investment in the limited partnership interest was made in February 2012, and the value is based on the net asset value of the limited partnership as reported by the general partner. The investment strategy of the limited partnership seeks to achieve a total return in excess of the comparable return of the Merrill Lynch High Yield Master II Index through investments in primarily noninvestment grade bonds of corporate entities that First Western Capital Management Company, a Colorado corporation (First Western) and the Partnership's general partner (the General Partner), believes have satisfactory fundamentals with strong industry economic trends or are within weak economic sectors that appear to have reasonably sound or improving credit characteristics. The General Partner may authorize Distributions to Partners at such times and in such amounts as the General Partner may in its discretion determine. In addition, upon giving 15 days' advance written notice to the

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

General Partner, a Limited Partner may withdraw any portion (but less than all) of his Capital Account (excluding such Partner's allocable share of any unrealized gains and/or other unrealized appreciation), effective as of the last day of any calendar month. The General Partner may withhold from any distribution to a withdrawing Limited Partner a reserve to pay for contingent liabilities arising from events occurring during the period of time in which a withdrawing Limited Partner is a Partner in the Partnership, which reserve, or any remaining balance thereof, shall be paid to such withdrawing Limited Partner without interest upon the General Partner's determination that such reserve (or such remaining balance) is no longer required. No distribution shall be made that would have the effect of rendering the Partnership insolvent.

The Organization currently has no other assets or liabilities subject to fair value measurement other than at initial recognition.

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	2018	2017
Cost or Donated Value:		
Land	\$ 1,143,074	\$ 1,134,074
Buildings and Leasehold Improvements	19,741,852	16,239,756
Furniture and Equipment	1,947,232	1,896,934
Vehicles	1,232,887	1,232,887
Assets Held Under Capital Lease Obligation	152,000	160,430
Use of Land	56,972	56,972
Construction in Progress	-	281,748
Total Cost or Donated Value	24,274,017	21,002,801
Accumulated Depreciation and Amortization	(9,457,042)	(8,858,852)
Property and Equipment, Net	\$ 14,816,975	\$ 12,143,949

Depreciation and amortization expense charged to operations was \$758,620 and \$726,822, for the years ended June 30, 2018 and 2017, respectively.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 5 ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT**

The Clubs had a capital campaign to raise funds to secure full funding (pay principal on outstanding debt) for the new facility and to support delivery of services and programs. Assets attributable to investment for long-term purposes consist of unconditional promises to give.

Assets restricted to investment in property and equipment will enable Clubs to expand programs and services to an additional 4,000 youth, including 1,000 teens. Specific projects funded by this capital campaign to date include the completion of the Administrative & Training Center, completion of a Teen Center at the Virginia G. Piper Club, construction of a new gymnasium and teen center at the Thunderbirds Branch and construction of a new ½ gymnasium at the Vestar Branch, expansion of technology and fine arts and education programs within all our Clubs. Other funds secured as a result of this capital campaign will augment the Clubs' endowment which ultimately provided additional funds for future operations.

As of June 30, 2018, the Clubs had no outstanding pledges receivable pertaining to the capital campaign.

**NOTE 6 SPLIT INTEREST AGREEMENTS**

At June 30, 2018 and 2017, the Foundation administered fifteen and fourteen charitable gift annuities, respectively. The assets contributed under the charitable gift annuities are carried at fair value. The gift annuities totaled \$1,072,618 and \$880,157 at June 30, 2018 and 2017, respectively, and are reported within investments in Note 3. Contribution revenues are recognized at the date the annuities are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. Present values are calculated using discount rates that reflect the fair value as determined at the time the annuities are established and range from 4.4% to 6.1%, and actuarial tables and guidelines used for calculating the available deduction for income tax purposes. The liabilities are adjusted for the accretion of the discount and other changes in the estimates of future benefits. The present value of the estimated annuity payment liability associated with the charitable gift annuities was \$78,011 and \$235,317 at June 30, 2018 and 2017, respectively.

The changes in split interest agreements for the years ended June 30, are as follows:

	2018	2017
Balance - Beginning of Year	\$ 880,157	\$ 785,637
Contributions	100,000	100,000
Net Appreciation (Depreciation)	92,461	(5,480)
Balance - End of Year	\$ 1,072,618	\$ 880,157

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 7 LINE OF CREDIT**

The Clubs have a line of credit with a bank with an available limit of \$300,000. The line of credit does not have a maturity date and is due on demand. Interest is payable monthly at the bank prime rate (5.0% at June 30, 2018 and 4.6% at June 30, 2017), but not less than 5%. There were no amounts outstanding under the line of credit at June 30, 2018 and 2017. Interest expense incurred for the line of credit was \$2,514 and \$-0-, for the years ended June 30, 2018 and 2017, respectively.

During May 2018, the Clubs entered into a line of credit with a bank with an available limit of \$2,000,000. The line of credit matures June 30, 2019 and can be canceled at any time by the bank. The line of credit is secured by deposits and equity investments held by the Clubs. Interest is payable monthly at the Variable Libor Rate plus 1.90% (4.05% at June 30, 2018). As of June 30, 2018 \$800,000 was outstanding under the line of credit. Interest expense incurred for the line of credit was \$1,695 for the year ended June 30, 2018.

**NOTE 8 LONG-TERM DEBT**

Long-term debt consisted of the following at June 30:

<u>Description</u>	<u>2018</u>	<u>2017</u>
HVAC Note Payable, unsecured. The note accrues interest at 3.5% and is paid monthly. The note matures on August 31, 2024.	\$ 83,158	\$ 94,858
Less: Current Portion	12,115	11,699
Total Long-Term Portion	<u>\$ 71,043</u>	<u>\$ 83,159</u>

Maturities of long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 12,115
2020	12,546
2021	12,993
2022	13,455
2023	32,049
Total Future Maturities	<u>\$ 83,158</u>

Interest expense incurred for long-term debt was \$3,134 and \$5,642 for the years ended June 30, 2018 and 2017, respectively.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 9 CAPITAL LEASE OBLIGATION**

Effective August 2017, the Clubs entered into a five year, noncancelable, capital lease agreement for copiers, which expires in July 2022. The lease requires monthly payments of \$2,748 at an effective interest rate of 3.07% totaling \$164,880 over the five-year period. The leased equipment has a carrying value of \$152,000 and accumulated depreciation of \$30,400 as of June 30, 2018. Interest expense incurred for the capital lease was approximately \$3,963 and \$5,846 for the years ended June 30, 2018 and 2017, respectively.

The future minimum lease payments and capital lease obligations under the capital lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 32,976
2020	32,976
2021	32,976
2022	32,976
2023	<u>2,748</u>
Total Minimum Lease Payments	134,652
Less: Amount Representing Interest	<u>(8,251)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$ 126,401</u></u>

**NOTE 10 UNRESTRICTED NET ASSETS**

Unrestricted net assets consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 30,005,634	\$ 27,852,995
Board Designated for Long-Term Investments	<u>2,000,000</u>	<u>2,000,000</u>
Total Unrestricted Net Assets	<u><u>\$ 32,005,634</u></u>	<u><u>\$ 29,852,995</u></u>

The by-laws of the Foundation designated \$2,000,000 of the unrestricted net assets to be used as an endowment. The designated amount is only to be used for investment purposes, the income of which is for the benefit of the Clubs. The amount can be changed only by a two-thirds vote of the board of governors of the Foundation.

During 2010, the Investment Committee developed a policy for the Foundation's new charitable gift annuity program whereby an initial \$100,000 was self-funded to help commence the program. Additional unrestricted annuities received are also designated by the Board to the annuity program.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 11 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following at June 30:

Purpose Restrictions:	2018	2017
Capital Campaign	\$ 64,283	\$ 1,704,154
Back to School Shopping	152,094	171,686
Scholarship Funds	46,858	23,609
Programs - Other	172,799	96,037
Time Restrictions:		
United Way	30,550	122,200
Other	39,902	8,493
Total Temporarily Restricted Net Assets	\$ 506,486	\$ 2,126,179

Net assets of \$3,869,282 and \$717,175, were released from restriction during the years ended June 30, 2018 and 2017, respectively, related to the fulfillment of program and time restrictions.

**NOTE 12 ENDOWMENTS**

The Foundation's endowments consists of one board designated fund and one individual donor-restricted fund. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. In September 2008, the State of Arizona enacted ARS§ 10-1180 et seq Management of Charitable Funds Act (MCFA).

The Foundation 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 Foundation 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 Foundation 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 Foundation in a manner consistent with the standard of prudence prescribed by MCFA.



**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 12 ENDOWMENTS (CONTINUED)**

In accordance with MCFA, the Foundation consider 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 Foundation's other resources, and (7) the Foundation's investment policies.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, the Foundation rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Clubs target a diversified asset allocation that consists of equity-based investments, corporate and municipal bonds, and money market accounts.

The Foundation's annual appropriations are at the discretion of the Foundation's board of governors unless specific instructions are provided by the endowment donors.

Endowment net asset composition by type of fund as of June 30, 2018, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board Restricted	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Donor-Restricted	-	39,902	192,712	232,614
Total	<u>\$ 2,000,000</u>	<u>\$ 39,902</u>	<u>\$ 192,712</u>	<u>\$ 2,232,614</u>

The changes in endowment net assets for the year ended June 30, 2018, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - Beginning of Year	\$ 2,000,000	\$ 8,493	\$ 182,712	\$ 2,191,205
Contributions	-	-	10,000	10,000
Released from Restriction	-	(17,500)	-	(17,500)
Interest and Dividends	37,492	-	-	37,492
Net Appreciation/(Depreciation)	21,041	48,909	-	69,950
Appropriation of assets for Expenditure	(58,533)	-	-	(58,533)
Endowment Net Assets - End of Year	<u>\$ 2,000,000</u>	<u>\$ 39,902</u>	<u>\$ 192,712</u>	<u>\$ 2,232,614</u>

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 12 ENDOWMENTS (CONTINUED)**

Endowment net asset composition by type of fund as of June 30, 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board Restricted	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Donor-Restricted	-	8,493	182,712	191,205
Total	<u>\$ 2,000,000</u>	<u>\$ 8,493</u>	<u>\$ 182,712</u>	<u>\$ 2,191,205</u>

The changes in endowment net assets for the year ended June 30, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - Beginning of Year	\$ 2,000,000	\$ 8,493	\$ 182,712	\$ 2,191,205
Contributions	-	-	-	-
Interest and Dividends	41,415	-	-	41,415
Net Depreciation	254,966	-	-	254,966
Appropriation of assets for Expenditure	(296,381)	-	-	(296,381)
Endowment Net Assets - End of Year	<u>\$ 2,000,000</u>	<u>\$ 8,493</u>	<u>\$ 182,712</u>	<u>\$ 2,191,205</u>

The nature of these restrictions is as follows:

	<u>2018</u>	<u>2017</u>
The Portion of Perpetual Endowment Funds that is Required to be Retained Permanently Either by Explicit Donor Stipulation or by MCFA	<u>\$ 192,712</u>	<u>\$ 182,712</u>
Temporarily Restricted Net Assets Subject to Time Restrictions under MCFA	<u>\$ 39,902</u>	<u>\$ 8,493</u>

**NOTE 13 OPERATING LEASES**

The Clubs lease property and certain office equipment under noncancelable operating leases expiring through 2022. The minimum future rental and maintenance fee commitments under these noncancelable operating leases (which excludes the contributed value) are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 94,278
2020	22,191
2021	22,191
2022	16,368
2023	1,364
Total Minimum Future Rental Payments	<u>\$ 156,392</u>

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 13 OPERATING LEASES (CONTINUED)**

Certain leases do not contain renewal options; however, in the normal course of business, the Clubs will either renew the leases or seek new arrangements.

Total rental expense under all leases with a term in excess of one month totaled \$94,726 and \$77,565 for the years ended June 30, 2018 and 2017, respectively.

The Clubs also leases the land for four locations, the Virginia Piper and Administrative Center, Barker and Thunderbird branches from the City of Scottsdale with an additional lease for the McKee branch from the Town of Fountain Hills. The leases require payments \$1 each per year and expire in April 2038, July 2022, August 2050, and February 2052, respectively. Certain of the land leases contain an option to renew for an additional term. At inception of each agreement, the Clubs were required to construct new or refurbish existing buildings at the sole cost and expense of the Clubs. Upon termination of the lease, all property constructed or improvements made by the Clubs revert to each lessor at no cost to the lessor. The leases also included specific provisions granting the lessor access to and use of the constructed facilities at no cost to the lessor. The leases specifically contemplate the shared use of the facilities in exchange for the nominal cash rent payments. Based on the terms of the lease, the Clubs are required to perform annually under the agreements. The Clubs have recorded the fair value ascribed to the use of land over the term of the leases in the accompanying consolidated financial statements, see Note 4.

**NOTE 14 PENSION AND 401(K) PLANS**

The Clubs sponsors a 401(k) plan covering substantially all employees who have completed 12 months of service and are age 21 or older. The Club matches employee contributions at a rate of 100% up to 3% of their pay. The Clubs and Foundation contributed \$88,393 and \$66,525, for the years ended June 30, 2018 and 2017, respectively, to the Plan.

**NOTE 15 CONTINGENCIES**

The Clubs are subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of the claims cannot be predicted with certainty, management does not believe that the outcome of any of these matters will have a material adverse effect on the Clubs' financial position, results of operations or cash flows.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 15 CONTINGENCIES (CONTINUED)**

The Clubs and the City of Scottsdale (the City) were in a dispute regarding certain capital improvement costs incurred by the City during 2009/2010 on a branch property leased by the Clubs from the City. The Clubs and the City reached an agreement that the Clubs will pay \$175,000, based on a ten-year payment schedule. Of this amount, \$125,000 was recorded as long-term debt by the Clubs. The balance outstanding on the long-term debt was \$83,158 and \$94,858 as of June 30, 2018 and 2017, respectively, see Note 8.

**NOTE 16 RELATED PARTY TRANSACTIONS**

The Clubs received revenues from their national affiliate, The Boys and Girls Club of America, of approximately \$80,250 and \$151,697 during the years ended June 30, 2018 and 2017, respectively, which are included in contributions in the accompanying consolidated statements of activities and changes in net assets.

The Clubs paid dues to their national affiliate, The Boys and Girls Club of America, which totaled \$25,807 and \$27,916 during the years ended June 30, 2018 and 2017, respectively.

**NOTE 17 CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Clubs to concentration of credit risk consist principally of cash and cash equivalents and pledges receivable. Cash is placed with high quality financial institutions; however, at times these cash balances exceed the Federal Deposit Insurance Corporation insurance limit. The Clubs and Foundation pledged receivable consist of single and multi-year pledges primarily from individuals and large corporations.

**NOTE 18 NEW AUTHORITATIVE ACCOUNTING LITERATURE**

In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires the Club's to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Club's expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the Club's for the year ending June 30, 2020; however, early application is permitted.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 18 NEW AUTHORITATIVE ACCOUNTING LITERATURE (CONTINUED)**

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the Club's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the Club's financial statements.

In August 2016, the FASB issued Accounting Standards Update 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which is expected to impact the information presented in financial statements and notes about a nonprofit entity's liquidity, financial performance, and cash flows. The guidance is required to be applied by the Club's for the fiscal year ending June 30, 2019.

The FASB issued Accounting Standards Update (ASU) No. 2018-08 on June 21, 2018. This update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This ASU distinguishes between contributions and exchange transactions and assists in determining which guidance to apply. For contributions, the guidance in Subtopic 958-605, *Not-for-Profit Entities—Revenue Recognition*, should be followed. For exchange transactions, Topic 606, *Revenue from Contracts with Customers*, should be followed. To determine which guidance should be followed, grant documents have to be carefully analyzed. The standard will be effective for the Club's for the year ending June 30, 2020; however, early application is permitted.

**NOTE 19 SUBSEQUENT EVENTS**

Management evaluated subsequent events through December 13, 2018, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2018, but prior to December 13, 2018, have been recognized in the consolidated financial statements for the year ended June 30, 2018. Events or transactions that provided evidence about conditions that did not exist at June 30, 2018, but arose before the consolidated financial statements were available to be issued have not been recognized in the consolidated financial statements for the year ended June 30, 2018.

In October 2018, the Clubs converted accrued roof repair expenses payable in the amount of \$77,725 to a 5-year installment payment agreement with the City of Scottsdale. The Clubs were required to make an initial payment of \$15,725 within 20 days of executing the installment payment agreement. The remaining \$62,000 will be paid over 60 monthly installments at an interest rate of 3.5% with the final payment being made no later than December 2023.

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2018**  
(SEE INDEPENDENT AUDITORS' REPORT)

	Clubs and Subsidiary	Foundation	Eliminating Entries	Combined Balances
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	\$ 409,303	\$ 60,240	\$ -	\$ 469,543
Receivables	239,781	1,081,319	(800,000)	521,100
Interest Receivable	-	24,742	-	24,742
Pledges Receivable, Net	23,300	3,000	-	26,300
Prepaid Expenses	32,816	-	-	32,816
Total Current Assets	<u>705,200</u>	<u>1,169,301</u>	<u>(800,000)</u>	<u>1,074,501</u>
<b>INVESTMENTS</b>	-	17,761,400	-	17,761,400
<b>SPLIT INTEREST AGREEMENTS</b>	-	1,072,618	-	1,072,618
<b>PROPERTY AND EQUIPMENT, Net</b>	14,807,975	9,000	-	14,816,975
<b>ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT</b>				
Cash	64,283	-	-	64,283
Total Assets	<u>\$ 15,577,458</u>	<u>\$ 20,012,319</u>	<u>\$ (800,000)</u>	<u>\$ 34,789,777</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts Payable and Accrued Liabilities	\$ 1,514,140	\$ 33,722	\$ (800,000)	\$ 747,862
Other Liabilities	249,513	-	-	249,513
Capital Lease Obligation, Current Portion	22,535	-	-	22,535
HVAC Note Payable, Current Portion	12,115	-	-	12,115
Line of Credit	-	800,000	-	800,000
Present Value of Annuity Payments, Current Portion	-	7,586	-	7,586
Total Current Liabilities	<u>1,798,303</u>	<u>841,308</u>	<u>(800,000)</u>	<u>1,839,611</u>
<b>CAPITAL LEASE OBLIGATION, Net of Current Portion</b>	103,866	-	-	103,866
<b>HVAC NOTE PAYABLE, Net of Current Portion</b>	71,043	-	-	71,043
<b>PRESENT VALUE OF ANNUITY PAYMENTS, Net of Current Portion</b>	-	70,425	-	70,425
Total Liabilities	<u>1,973,212</u>	<u>911,733</u>	<u>(800,000)</u>	<u>2,084,945</u>
<b>NET ASSETS</b>				
Unrestricted	13,137,662	18,867,972	-	32,005,634
Temporarily Restricted	466,584	39,902	-	506,486
Permanently Restricted	-	192,712	-	192,712
Total Net Assets	<u>13,604,246</u>	<u>19,100,586</u>	<u>-</u>	<u>32,704,832</u>
Total Liabilities and Net Assets	<u>\$ 15,577,458</u>	<u>\$ 20,012,319</u>	<u>\$ (800,000)</u>	<u>\$ 34,789,777</u>

**BOYS AND GIRLS CLUB OF GREATER SCOTTSDALE, INC.**  
**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2018**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	Clubs and Subsidiary	Foundation	Eliminating Entries	Combined Balances
<b>PUBLIC SUPPORT AND REVENUE</b>				
Public Support:				
Contributions, Net	\$ 3,178,958	\$ 253,680	\$ (899,000)	\$ 2,533,638
Bequests	-	292,850	-	292,850
Grants	1,814,036	-	-	1,814,036
Program Service Fees	3,074,260	-	-	3,074,260
Donated Services, Materials and Facilities	295,837	7,025	-	302,862
Membership Income	104,580	-	-	104,580
Thrift Store	243,288	-	-	243,288
Change in Value of Split Interest				
Agreements, Net	-	92,461	-	92,461
Miscellaneous	8,402	-	-	8,402
Total Public Support	<u>8,719,361</u>	<u>646,016</u>	<u>(899,000)</u>	<u>8,466,377</u>
Revenues:				
Investment Income	-	357,490	(1,695)	355,795
Realized/Unrealized Gains on Investments	-	777,951	-	777,951
Other	106,285	-	-	106,285
Total Revenue	<u>106,285</u>	<u>1,135,441</u>	<u>(1,695)</u>	<u>1,240,031</u>
 Total Public Support and Revenue Before Special Events and Net Assets Released from Restrictions	 8,825,646	 1,781,457	 (900,695)	 9,706,408
Special Events Revenue	1,256,799	-	-	1,256,799
Less: Costs of Direct Donor Benefits	(393,417)	-	-	(393,417)
Gross Profit from Special Events	<u>863,382</u>	<u>-</u>	<u>-</u>	<u>863,382</u>
 Total Public Support and Revenue	 <u>9,689,028</u>	 <u>1,781,457</u>	 <u>(900,695)</u>	 <u>10,569,790</u>
<b>EXPENSES AND LOSSES</b>				
Comprehensive Youth Development	7,643,036	935,508	(900,695)	7,677,849
Management and General	1,022,744	73,599	-	1,096,343
Fundraising	889,930	362,722	-	1,252,652
Total Expenses and Losses	<u>9,555,710</u>	<u>1,371,829</u>	<u>(900,695)</u>	<u>10,026,844</u>
 <b>CHANGES IN NET ASSETS</b>	 133,318	 409,628	 -	 542,946
Net Assets - Beginning of Year	<u>13,470,928</u>	<u>18,690,958</u>	<u>-</u>	<u>32,161,886</u>
 <b>NET ASSETS - END OF YEAR</b>	 <u>\$ 13,604,246</u>	 <u>\$ 19,100,586</u>	 <u>\$ -</u>	 <u>\$ 32,704,832</u>



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