BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS, ADDITIONAL INFORMATION, AND OMB CIRCULAR A-133 SUPPLEMENTARY REPORTS

Year Ended August 31, 2015

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS, ADDITIONAL INFORMATION, AND OMB CIRCULAR A-133 SUPPLEMENTARY REPORTS

Year Ended August 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries*** which comprise the consolidated statement of financial position as of August 31, 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries*** as of August 31, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary's*** 2014 consolidated financial statements, and our report dated December 17, 2014, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information in this schedule 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015 on our consideration of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
December 18, 2015

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

August 31, 2015
(with comparative totals at August 31, 2014)

ASSETS

	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	$ 2,700,849	$ 2,779,744
Receivables	2,480,075	2,545,060
Other current assets	113,517	82,332
TOTAL CURRENT ASSETS	5,294,441	5,407,136
RECEIVABLES, net	1,858,060	2,723,335
INVESTMENTS	1,847,514	669,102
CASH AND CASH EQUIVALENTS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT	933,000	-
PROPERTY AND EQUIPMENT, net	15,462,682	16,326,711
INTEREST IN FOUNDATION NET ASSETS	6,851,630	7,190,165
PROPERTY HELD FOR SALE	240,872	240,872
CASH SURRENDER VALUE OF LIFE INSURANCE	115,892	108,329
TOTAL ASSETS	$ 32,604,091	$ 32,665,650

LIABILITIES AND NET ASSETS

	2015	2014
CURRENT LIABILITIES		
Accounts payable	$ 224,311	$ 150,120
Accrued expenses	335,520	296,673
Deferred revenues	31,701	118,285
Current maturities of long-term debt	313,655	302,675
Other current liabilities	2,500	2,500
TOTAL CURRENT LIABILITIES	907,687	870,253
LONG-TERM DEBT, less current maturities	1,216,575	1,499,711
TOTAL LIABILITIES	2,124,262	2,369,964
NET ASSETS		
Unrestricted:		
Undesignated	18,871,170	19,459,597
Board designated	2,119,500	1,783,373
Total unrestricted net assets	20,990,670	21,242,970
Temporarily restricted	6,405,740	6,052,316
Permanently restricted	3,083,419	3,000,400
TOTAL NET ASSETS	30,479,829	30,295,686
TOTAL LIABILITIES AND NET ASSETS	$ 32,604,091	$ 32,665,650

See Notes to Consolidated Financial Statements

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended August 31, 2015
(with comparative totals for the year ended August 31, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2015	Totals 2014
SUPPORT AND REVENUES					
Contributions	$ 3,323,200	$ 1,703,003	$ -	$ 5,026,203	$ 9,018,362
United Way allocations	180,039	836,344	-	1,016,383	1,030,692
Governmental fees and grants	1,322,773	-	-	1,322,773	1,352,822
Program service fees	1,170,240	-	-	1,170,240	1,106,383
Change in interest in Foundation net assets	(228,896)	(192,658)	83,019	(338,535)	319,969
Donated materials and services	565,542	-	-	565,542	536,892
Investment income	21,216	-		21,216	112,903
Gain on sale or disposal of property and equipment	653,586	-	-	653,586	4,037
Change in cash surrender value of life insurance	7,563	-	-	7,563	8,177
Net realized and unrealized gains (losses)	(53,694)	-	-	(53,694)	104,511
Gain on extinguishment of debt	-	-	-	-	2,604,565
Gain on sale of cell tower easement	318,690	-	-	318,690	-
Insurance recoveries	707,162	-	-	707,162	-
Other	221,259	-	-	221,259	71,786
Total support and revenues before special events and net assets released from restrictions	8,208,680	2,346,689	83,019	10,638,388	16,271,099
Special events revenues	1,943,172	-	-	1,943,172	2,329,726
Less costs of direct donor benefits	(444,347)	-	-	(444,347)	(394,494)
Gross profit on special events	1,498,825	-	-	1,498,825	1,935,232
Net assets released from restrictions	1,993,265	(1,993,265)	-	-	-
TOTAL SUPPORT AND REVENUES	11,700,770	353,424	83,019	12,137,213	18,206,331
EXPENSES					
Programs:					
Social adjustment, development and recreation	10,410,026	-	-	10,410,026	9,366,947
Supporting services:					
Management and general	755,051	-	-	755,051	383,604
Fundraising	787,993	-	-	787,993	825,367
TOTAL EXPENSES	11,953,070	-	-	11,953,070	10,575,918
CHANGE IN NET ASSETS	(252,300)	353,424	83,019	184,143	7,630,413
NET ASSETS, BEGINNING OF YEAR	21,242,970	6,052,316	3,000,400	30,295,686	22,665,273
NET ASSETS, END OF YEAR	$ 20,990,670	$ 6,405,740	$ 3,083,419	$ 30,479,829	$ 30,295,686

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2015
(with comparative totals for the year ended August 31, 2014)

	Social Adjustment, Development and Recreation Programs	Management and General	Fundraising	Totals 2015	Totals 2014
Personnel costs:					
Salaries	$ 4,602,256	$ 222,874	$ 435,953	$ 5,261,083	$ 4,718,301
Employee benefits	425,968	25,499	62,231	513,698	479,632
Payroll taxes	386,418	16,216	32,522	435,156	433,943
Total personnel costs	5,414,642	264,589	530,706	6,209,937	5,631,876
Professional fees	342,962	49,672	43,309	435,943	418,263
Supplies	1,304,114	10,584	3,688	1,318,386	1,180,794
Occupancy	927,480	284,709	85,056	1,297,245	602,888
Insurance	140,253	9,372	2,851	152,476	147,013
Telephone	47,861	14,567	4,797	67,225	61,705
Conferences, conventions and meetings	37,223	23,390	9,092	69,705	45,143
Repairs and maintenance	127,617	24,185	21,947	173,749	132,976
Contribution to foundation	442,000	-	-	442,000	-
Youth assistance	144,881	-	-	144,881	123,607
Transportation	77,577	743	1,398	79,718	88,563
Printing and publication	26,684	5,101	11,235	43,020	60,946
Training	26,407	4,605	2,186	33,198	28,906
Marketing	600	-	20,751	21,351	7,326
National dues	27,105	-	-	27,105	27,105
Postage	7,008	2,516	1,431	10,955	11,411
Interest	11,108	15,868	4,760	31,736	617,766
Other	19,278	14,190	35,427	68,895	97,780
Total expenses before depreciation expense	9,124,800	724,091	778,634	10,627,525	9,284,068
Depreciation expense	1,285,226	30,960	9,359	1,325,545	1,291,850
TOTAL EXPENSES	$ 10,410,026	$ 755,051	$ 787,993	$ 11,953,070	$ 10,575,918

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended August 31, 2015
(with comparative totals for the year ended August 31, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 184,143	$ 7,630,413
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,325,545	1,291,850
Amortization of deferred financing costs	-	98,254
Unrealized losses on investments	54,709	-
Realized gains on investments	(1,015)	(104,511)
Gain on sale of cell tower easement	(318,690)	-
Gain on sale or disposal of property and equipment	(653,586)	(4,037)
Provision for bad debts	10,987	34,650
Gain on extinguishment of debt	-	(2,604,565)
Forgiveness of CDBG debt	(88,389)	(77,869)
Contributed property and equipment included in support	(228,401)	(289,784)
Contributions restricted to investment in property and equipment	(933,000)	-
Change in interest in Foundation net assets	338,535	(319,969)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	919,273	(3,650,976)
Other current assets	(31,185)	1,775
Increase (decrease) in:		
Accounts payable	74,191	2,391
Accrued expenses	38,847	18,717
Deferred revenues	(86,584)	75,527
Net cash provided by operating activities	605,380	2,101,866
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in cash and cash equivalents restricted to investment in property and equipment	(933,000)	110,000
Purchases of property and equipment	(631,041)	(576,115)
Purchases of investments	(3,253,103)	(11,408,793)
Change in cash surrender value of life insurance	(7,563)	(8,177)
Proceeds from sale of cell tower easement	318,690	-
Proceeds from sale of property and equipment	1,051,512	18,001
Proceeds from sales of investments	2,020,997	17,537,586
Net cash provided by (used in) investing activities	(1,433,508)	5,672,502
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted to investment in property and equipment	933,000	-
Proceeds from line of credit	-	1,500,000
Proceeds from term loan	30,519	60,000
Payments on line of credit	(214,286)	(160,714)
Payments on long-term debt	-	(7,428,845)
Net cash provided by (used in) financing activities	749,233	(6,029,559)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(78,895)	1,744,809
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,779,744	1,034,935
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,700,849	$ 2,779,744
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 31,248	$ 454,821

SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING AND INVESTING ACTIVITIES

The Clubs received contributions of property and equipment with a fair market value of $228,401 in 2015 and $289,784 in 2014. Additionally, the Clubs received contributions of securities with a fair market value of $68,401 in 2015 and $3,811 in 2014.

The Clubs received $88,389 and $2,682,434 of forgiveness of debt for the years ended August 31, 2015 and 2014, respectively.

(1) Clubs operations and summary of significant accounting policies

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

The Clubs provide a safe place for youth in the Phoenix metropolitan area, particularly those youth living in the most threatening and vulnerable environments. The goal is to engage youth in activities that are fun and enjoyable, while supporting their development. Currently, the clubhouses and outreach youth services affect approximately 31,000 area children ages 6 to 18.

All of the programs and activities are designed to help young people have a safe place to learn, grow and to participate in life-enhancing programs and character development experiences. The Clubs focus on programs in five core program areas: Character and Leadership Development; Education and Career Development; Health and Life Skills; The Arts; Sports, Fitness and Recreation. These programs help youth develop a positive self-identity, a sense of belonging to a community, educational, employment, social, emotional and cultural competencies; and the values enabling them to develop positive relationships with others. Youth who enter the world with these capacities can become responsible citizens and leaders who make meaningful contributions and live successful lives.

On January 17, 2007, the Clubs formed BG Development, LLC, with the Clubs as the sole member. BG Development, LLC was formed to construct three new clubhouses, which were completed during 2009.

On April 7, 2014, the Clubs formed BGC Managers, LLC, with the Clubs as the sole member. BGC Managers, LLC was formed to administer management services for the Boys & Girls Clubs of Central Arizona under a memorandum of understanding between Boys & Girls Clubs of Central Arizona, BGC Managers, LLC and Boys & Girls Clubs of America.

The significant accounting policies followed by the Clubs and its subsidiaries, BG Development, LLC and BGC Managers, LLC, collectively referred to in these consolidated financial statements as the “Clubs” are summarized below:

Basis of presentation - The accompanying consolidated financial statements are presented in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205, *Not-for-Profit Entities – Presentation of Financial Statements.* Under FASB ASC 958-205, the Clubs are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

Prior year summarized information - The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Clubs' consolidated financial statements for the year ended August 31, 2014, from which the summarized information was derived.

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

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

Revenue recognition - The Clubs recognize amounts received from grants and contracts as earned when the services are rendered under a unit of service contract. Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Clubs with the terms of the grant or contract. Program service fees are recognized in the period to which the fees relate. Fees received prior to the occurrence of a scheduled event are deferred until the period in which the event occurs.

Contributions - The Clubs account for contributions in accordance FASB ASC 958-605*, Not-for-Profit Entities – Revenue Recognition*. In accordance with FASB ASC 958-605, 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 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 consolidated statement of activities as net assets released from restrictions. Restricted support, where restrictions are met in the same period as the contribution is made, is shown as unrestricted support.

Cash and cash equivalents - Cash consists of cash and, at times, cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Deposits at each financial institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC).

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

Promises to give - Unconditional promises to give (pledges) that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including when the receivable is expected to be collected, the creditworthiness of the other parties, the Club's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the pledge's collectability. Amortization of the discounts is included in support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

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

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

Property and equipment and related depreciation - Purchased property and equipment is valued at cost, and donated property and equipment is recorded at fair value at the date of gift to the Clubs. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of $1,000 are capitalized. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is computed on a straight-line basis over the following estimated useful lives:

Land improvements	17 years
Buildings and improvements	3 to 30 years
Furniture and equipment	3 to 5 years

Impairment of long-lived assets - The Clubs account for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant, and Equipment.* FASB ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded for 2015 or 2014.

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

Donated materials and services - Donated materials are reflected as contributions in the consolidated statement of activities at their estimated fair values at the date of receipt. Donated services are recognized as contributions in accordance with FASB ASC 958-605 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. No amounts have been reflected in the consolidated financial statements for certain donated volunteer services because they did not qualify for recording under the guidelines of FASB ASC 958-605; however, a substantial number of volunteers have donated significant amounts of their time in the Clubs' program services and fundraising campaigns. Management estimates that the unrecorded value of donated services was $376,152 and $363,591 for the years ended August 31, 2015 and 2014, respectively.

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

The Clubs received the following donated materials and services:

	Used for	2015	2014
Professional services	Various	$ 75,515	$ 36,989
Property and equipment	Program	228,401	289,784
Other	Various	261,626	210,119
		$ 565,542	$ 536,892

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

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

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

The Club's federal Return of Organizations Exempt from Income Tax (Form 990) for fiscal 2012, 2013 and 2014 are subject to examination by the IRS, generally for the three years after they were filed. As of the date of this report, the 2015 Form 990 has not been filed.

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

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

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

Recent accounting pronouncement - In May 2014, the FASB issued ASU No. 2014-09 ("ASU 2014-09"), *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU 2014-09 will require an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. For nonpublic entities, the ASU will be effective for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Nonpublic entities may elect to early adopt the ASU, however, adoption is not permitted prior to the public entity effective date.

In August 2015, the FASB issued FASB ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606), which changed the effective date of the provisions of FASB ASU No. 2014-05. As a result, the new effective dates for public business entities, certain not-for-profit entities, and certain employee benefit plans to apply the guidance in FASB ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Transition to the new guidance may be done using either a full or modified retrospective method. The Organization is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

Subsequent events - The Clubs have evaluated events through December 18, 2015 which is the date the consolidated financial statements were available to be issued.

(2) Receivables

Receivables consist of the following:

	2015	2014
Current Receivables:		
United Way allocations	$ 836,344	$ 851,035
Unconditional promises to give due in less than one year	1,499,968	1,336,531
Grants and contracts	74,954	209,217
Event receivables	62,779	126,910
Other receivables	6,030	21,367
Total current receivables	2,480,075	2,545,060
Event receivables due in two to four years, net of discount of $232 and $92 as of August 31, 2015 and 2014, respectively	8,060	23,335
Unconditional promises to give due in two to four years, net of discount of $150,000 and $300,000 as August 31 2015 and 2014, respectively	1,850,000	2,700,000
Total receivables, net	$ 4,338,135	$ 5,268,395

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

(2) Receivables (continued)

At August 31, 2015 and 2014, unconditional promises to give consist of a multi-year pledge from a single donor to be used for improvements and general operations of a new Branch located in the Balsz School District. This pledge receivable from a single donor represents approximately 65% and 72% of total net receivables as of August 31, 2015 and 2014, respectively. All receivable balances at August 31, 2015 and 2014 are considered fully collectible by management and, accordingly, an allowance for doubtful accounts has not been provided.

The estimated cash flows for unconditional promises to give and event receivables were discounted over the collection period using discount rates ranging from 1.6% to 5%.

(3) Investments

The Clubs account for their investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities - Investments - Debt and Equity Securities* and FASB ASC 958-325, *Not-for-Profit Entities - Investments - Other*. Under FASB ASC 958-320, the Clubs are required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair values of these investments are based on quoted market prices. Certificates of deposit are held to maturity and carried at amortized cost (which approximates fair value). Under FASB ASC 958-325, investments in common stock that do not have readily determinable fair values are recorded at fair value at the dates the investments were purchased or donated and are periodically revalued through appropriate valuation methods.

Investments consist of the following at August 31:

	2015	2014
Capital appreciation mutual funds:		
Asset allocation funds	$ 1,258,780	$ -
Capital preservation funds:		
Fixed income bond mutual funds-short term	581,751	-
Money market funds	1,982	664,101
Other capital preservation funds	5,001	5,001
Total capital preservation funds	588,734	669,102
Total investments	$ 1,847,514	$ 669,102

Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risk in the near term could materially affect account balances and the amounts in the accompanying consolidated financial statements. Expenses relating to investment revenues, including custodial fees and investment advisory fees, were $2,188 and $11,028 for the years ended August 31, 2015 and 2014, respectively, and are included in professional fees in the accompanying consolidated statement of functional expenses.

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

(4) Property and equipment

Property and equipment consist of:

	2015	2014
Cost and donated value:		
Land and land improvements	$ 1,040,603	$ 1,339,664
Buildings and improvements	25,436,968	26,517,793
Furniture and equipment	2,855,093	2,478,162
Construction in progress	15,356	44,741
Total cost and donated value	29,348,020	30,380,360
Accumulated depreciation	(13,885,338)	(14,053,649)
Property and equipment, net	$ 15,462,682	$ 16,326,711

Depreciation expense charged to operations was $1,325,545 in 2015 and $1,291,850 for 2014.

Construction in progress consists of renovations and improvements to existing facilities that have not yet been placed into service.

During fiscal 2015, the Clubs incurred significant storm damage to the administration facility and the Tri-City/Thornwood branch. The Club incurred and recognized expenses totaling $642,326 to repair the facilities. The expenses are included within occupancy expense. The Club filed loss claims with its insurance provider and recovered $707,162 from the insurance related to these claims.

During fiscal 2015, the Clubs entered into an agreement with a third party to sell as easement for a cell tower lease. Under the terms of the agreement, dated December 31, 2014, proceeds received from the sale, and the related gain, totaled $318,690 in fiscal 2015.

During fiscal 2015, the Clubs sold it administration facility to a third-party and relocated is administration offices to a new branch location. The net proceeds from the sale of the administration facility totaled $1,042,012, resulting in a gain on the sale of $644,086. Additionally, the Clubs sold certain fully depreciated vehicles for an additional gain of $9,500.

(5) Property held for sale

Property held for sale consists of the following:	2015	2014
Glendale property	$ 163,976	$ 163,976
Show Low property	76,896	76,896
	$ 240,872	$ 240,872

As a result of the Clubs decision to build a new Glendale branch, the former branch location is no longer needed. The Show Low property was used as a retreat facility by the Clubs, but the facilities were destroyed in a fire several years ago. The Clubs decided not to rebuild the Show Low facilities. The Board of Directors has approved selling both properties. Property held for sale is carried at the lesser of the book value or fair value. No impairment charges were recorded for 2015 or 2014.

(6) Deferred financing costs

Certain costs incurred in connection with the loan agreement described in Note 8 amounting to $825,347 had been deferred and were being amortized to operations using the straight-line method (which approximates the effective interest rate method) over 7 years, which was the estimated term of the loan based upon the anticipated execution of a call option. During 2014, the loan was repaid in full and the deferred financing costs were fully amortized. Amortization expense totaled $0 and $98,254 for the years ended August 31, 2015 and 2014, respectively, and is included in interest expense on the accompanying consolidated statements of functional expenses.

(7) Cash surrender value of life insurance

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

(8) Long-term debt

In June 2007, the Clubs, through BG Development, LLC, entered into a loan agreement that consisted of two notes, note A and note B, with JP Morgan Chase through New Markets Investment XXVI, LLC. Note A consisted of borrowings of $7,173,888, with interest payable monthly at 6.95%. Note B consisted of borrowings of $2,357,852 of principal and unpaid financing costs of $501,670, with interest payable monthly at 0.50%. The notes contained certain compliance provisions that limited the use of the property during a compliance period that expired in June 2014. Upon the expiration of the compliance period, management elected to execute a call option agreement that accelerated the maturity dates of the notes to July 1, 2014. On June 30, 2014 the Clubs paid $7,483,427, which consisted of the outstanding principal balance of note A of $7,173,888, plus $254,957 in termination fees, $16,304 in asset management fees and $38,278 of interest, with the principal balance of note B forgiven in full. The Organization recognized a gain on extinguishment of debt of $2,604,565 in connection with this transaction, which consists of the Note B principal of $2,357,852 and unpaid financing costs of $501,670, less the $254,957 of termination fees

Long-term debt also consists of interest free notes payable to the City of Phoenix for various maintenance and improvement projects at branch locations. The principal balance of the notes is forgiven from the certificate of completion date (May 25, 2007, May 27, 2007, November 7, 2007, April 1, 2008, April 10, 2009, November 15, 2009, March 29, 2010, June 30, 2011, January 31, 2013, May 23, 2014, and May 24, 2014, May 28, 2015 respectively) over 10 years, at 20 percent per year over the last five years of the term of the notes, provided the properties are used exclusively for low and moderate income persons or eligible programs. If the Clubs fail to comply with the grant restrictions, the Clubs will be required to repay the full amount of the notes on demand. At August 31, 2015 and 2014, $405,230 and $463,101 were outstanding under these notes, respectively.

The Clubs entered into a $1,500,000 line of credit on July 26, 2013 for the purpose of pre-paying long-term debt described above in fiscal 2014. The line is for a period of 5 years, carries a fixed 2.45% interest rate, and will be amortized over a 7 year term. The line is collateralized by securities of the Foundation. At August 31, 2015 and 2014, $1,125,000 and $1,339,286 was outstanding under this line of credit, respectively.

(8) Long-term debt (continued)

At August 31, 2015, estimated annual maturities of long-term debt outstanding are as follows:

Years Ending August 31,	
2016	$ 313,655
2017	288,775
2018	743,103
2019	58,674
2020	35,154
Subsequent to 2020	90,869
Total annual debt maturities	$ 1,530,230

(9) Board designated unrestricted assets

The board of directors has designated portions of the unrestricted net assets for various purposes, including staffing, the purchase of supplies, special projects, and operating reserves. In June 2014, board designated net assets were used to fund a balloon payment on long-term debt.

(10) Temporarily restricted net assets

Temporarily restricted net assets consist of:

	2015	2014
Purpose restrictions:		
Capital campaign and facilities remodel	$ 933,819	$ 50,000
Restricted for specific clubs or programs	4,208,067	4,622,937
Unappropriated investment earnings on the Foundation's endowment	-	65,783
Temporary restricted Foundation net assets	10,000	143,402
Scholarship fund	351,465	247,259
Time restrictions:		
United Way	836,344	851,035
Special events	66,045	71,900
Total temporarily restricted net assets	$ 6,405,740	$ 6,052,316

Releases from temporarily restricted net assets consist of:

	2015	2014
Purpose restrictions:		
Capital campaign and facilities remodel	$ 50,000	$ 560,000
Restricted for specific clubs or programs	984,012	139,758
Scholarship fund	36,318	70,470
Time restrictions:		
United Way	851,035	831,982
Special events	71,900	53,650
Total releases from temporarily restricted net assets	$ 1,993,265	$ 1,655,860

(11) Permanently restricted net assets

Permanently restricted net assets consist of the Clubs' interest in permanently restricted net assets of the Boys & Girls Clubs of Metropolitan Phoenix Foundation as described in Note 15.

(12) Leases

Operating leases - The Clubs have various operating leases for equipment, which expire through 2024. Minimum future rental payments under these noncancellable operating leases are as follows:

Years Ending August 31,		
2016	$	94,685
2017		94,685
2018		94,685
2019		83,721
2020		75,253
Subsequent to 2020		198,114
Total minimum future rental payments	$	641,143

The operating leases make no provisions for renewal options, however, in the normal course of business the Clubs will either renew the leases or seek other arrangements. Rent expense was $100,609 and $102,928 in 2015 and 2014, respectively.

Leases where the Organization is the lessor - The Clubs agreed to lease the Glendale property held for sale to another nonprofit starting April 19, 2010 for a period of two years. The lease was converted to a month to month lease which then terminated November 30, 2013.

Rental income of $0 and $12,300 for 2015 and 2014, respectively, is included in program service fees in the accompanying consolidated statement of activities.

(13) Retirement plan

The Clubs have a non-contributory defined contribution pension plan for all employees who meet specified age and service requirements. The plan is administered by the Clubs. The Clubs make annual contributions in the amount of 5% of eligible salaries in 2015 and 2014. Total pension expense was $142,257 and $141,886 for 2015 and 2014, respectively.

(14) Related party transactions

The Clubs received contributions from board of director members of $1,612,588 in 2015 and $2,115,489 in 2014. Approximately $535,866 of the amount received in 2015 and $140,000 of the amount received in 2014 consisted of donated materials and services which were recorded at the estimated fair value of the materials and services provided.

The Clubs received revenues from their national affiliate, The Boys and Girls Clubs of America, of $287,536 in 2015 and $344,989 in 2014.

The Clubs paid dues to their national affiliate, The Boys and Girls Clubs of America, of $27,105 in 2015 and 2014.

The Clubs received contributions from a related organization, the Foundation of $387,879 in 2015 and $635,238 in 2014, of which $387,879 and $392,403 are included in unconditional promises to give at year-end, as of August 31, 2015 and 2014, respectively.

During fiscal 2015, the Club contributed $442,000 to the Foundation. No such amounts were contributed in fiscal 2014.

(15) Interest in Foundation net assets

The Clubs and the Foundation, a separate 501(c)(3) organization, are financially interrelated organizations as defined by FASB ASC 958-605, Not-*for-Profit Entities – Revenue Recognition*. The Foundation has a separate Board of Trustees of which the Clubs do not have a controlling interest. The Foundation collects and manages funds exclusively for the benefit of the Clubs. As such, the Clubs are the beneficiary of and have an explicit ongoing economic interest in the net assets of the Foundation. The economic interest recorded in the accompanying consolidated statement of financial position represents the Clubs' beneficial interest in the net assets of the Foundation. The Clubs' beneficial interest in the net assets of the Foundation totaled $6,851,630 and $7,190,165 as of August 31, 2015 and 2014, respectively.

Summarized financial information of the Foundation as of and for the years ended August 31 is as follows:

	2015	2014
Total assets	$ 7,317,015	$ 7,671,765
Total liabilities	$ 465,385	$ 481,600
Net assets		
Unrestricted net assets	3,758,211	3,980,781
Temporarily restricted net assets	10,000	208,984
Permanently restricted net assets	3,083,419	3,000,400
Total net assets	$ 6,851,630	$ 7,190,165
Total revenue	$ 193,240	$ 804,368
Total expense	$ 531,775	$ 484,399

The assets of the Foundation consist primarily of investments that are measured at fair value using Level 1 observable inputs. The liabilities of the Foundation consist primarily of amounts due to the Clubs.

(16) Fair value measurements

The following table summarizes the valuation of the Clubs' assets and liabilities subject to recurring fair value measurement by the above FASB ASC 820 categories as of August 31, 2015:

	Total	Level 1	Level 2	Level 3
Capital appreciation mutual funds:				
Asset allocation funds	$ 1,258,780	$ 1,258,780	$ -	$ -
Capital preservation funds:				
Fixed income bond mutual funds-short term	581,751	581,751	-	-
Money market funds	1,982	1,982	-	-
Other capital preservation funds	5,001	5,001	-	-
Total capital preservation funds	588,734	588,734	-	-
Total investments at fair value	$ 1,847,514	$ 1,847,514	$ -	$ -

(16) Fair value measurements (continued)

The following table summarizes the valuation of the Clubs' assets and liabilities subject to recurring fair value measurement by the above FASB ASC 820 categories as of August 31, 2014:

	Total	Level 1	Level 2	Level 3
Capital preservation mutual funds:				
Money market funds	$ 664,101	$ 664,101	$ -	$ -
Other capital preservation funds	5,001	5,001	-	-
Total capital preservation funds	669,102	669,102	-	-
Total investments at fair value	$ 669,102	$ 669,102	$ -	$ -

ADDITIONAL INFORMATION

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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors of

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARY

We have audited the consolidated financial statements of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary*** as of and for the year ended August 31, 2015, and have issued our report thereon dated December 18, 2015 which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information on the schedules that follow on pages 20 and 21 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities, and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position or results of operations of the individual entities. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
December 18, 2015

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

August 31, 2015

A S S E T S

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	BGC Managers, LLC	Eliminations and Consolidations	Total
CURRENT ASSETS					
Cash and cash equivalents	$ 2,700,849	$ -	$ -	$ -	$ 2,700,849
Receivables	2,480,075	-	-	-	2,480,075
Investments	-	-	-	-	-
Other current assets	113,517	-	-	-	113,517
TOTAL CURRENT ASSETS	5,294,441	-	-	-	5,294,441
RECEIVABLES, net	1,858,060	-	-	-	1,858,060
INVESTMENTS	1,847,514	-	-	-	1,847,514
CASH AND CASH EQUIVALENTS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT	933,000	-	-	-	933,000
PROPERTY AND EQUIPMENT, net	15,462,682	8,587,160	-	(8,587,160)	15,462,682
INTEREST IN FOUNDATION NET ASSETS	6,851,630	-	-	-	6,851,630
PROPERTY HELD FOR SALE	240,872	-	-	-	240,872
CASH SURRENDER VALUE OF LIFE INSURANCE	115,892	-	-	-	115,892
TOTAL ASSETS	$ 32,604,091	$ 8,587,160	$ -	$ (8,587,160)	$ 32,604,091

L I A B I L I T I E S A N D N E T A S S E T S

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	BGC Managers, LLC	Eliminations and Consolidations	Total
CURRENT LIABILITIES					
Accounts payable	$ 224,311	$ -	$ -	$ -	$ 224,311
Payable to Parent	-	8,587,160	-	(8,587,160)	-
Accrued expenses	335,520	-	-	-	335,520
Deferred revenues	31,701	-	-	-	31,701
Current maturities of long-term debt	313,655	-	-	-	313,655
Other current liabilities	2,500	-	-	-	2,500
TOTAL CURRENT LIABILITIES	907,687	8,587,160	-	(8,587,160)	907,687
LONG-TERM DEBT, less current maturities	1,216,575	-	-	-	1,216,575
TOTAL LIABILITIES	2,124,262	8,587,160	-	(8,587,160)	2,124,262
NET ASSETS					
Unrestricted:					
Undesignated	18,871,170	-	-	-	18,871,170
Board designated	2,119,500	-	-	-	2,119,500
Total unrestricted net assets	20,990,670	-	-	-	20,990,670
Temporarily restricted	6,405,740	-	-	-	6,405,740
Permanently restricted	3,083,419	-	-	-	3,083,419
TOTAL NET ASSETS	30,479,829	-	-	-	30,479,829
TOTAL LIABILITIES AND NET ASSETS	$ 32,604,091	$ 8,587,160	$ -	$ (8,587,160)	$ 32,604,091

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended August 31, 2015

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	BGC Managers, LLC	Eliminations and Consolidations	Total
SUPPORT AND REVENUES					
Contributions	$ 5,026,203	$ -	$ -	$ -	$ 5,026,203
United Way allocations	901,464	-	114,919	-	1,016,383
Governmental fees and grants	1,322,773	-	-	-	1,322,773
Program service fees	1,170,240	-	-	-	1,170,240
Change in interest in Foundation net assets	(338,535)	-	-	-	(338,535)
Donated materials and services	565,542	-	-	-	565,542
Investment income	21,216	-	-	-	21,216
Gain on sale or disposal of property and equipment	653,586	-	-	-	653,586
Change in cash surrender value of life insurance	7,563	-	-	-	7,563
Net realized and unrealized losses	(53,694)	-	-	-	(53,694)
Gain on sale of cell tower easement	318,690	-	-	-	318,690
Insurance proceeds recoveries	707,162	-	-	-	707,162
Other	(152,467)	373,726	-	-	221,259
Total support and revenues before special events	10,149,743	373,726	114,919	-	10,638,388
Special events revenues	1,943,172	-	-	-	1,943,172
Less costs of direct donor benefits	(444,347)	-	-	-	(444,347)
Gross profit on special events	1,498,825	-	-	-	1,498,825
TOTAL SUPPORT AND REVENUES	11,648,568	373,726	114,919	-	12,137,213
EXPENSES					
Programs:					
Social adjustment, development and recreation	9,921,381	373,726	114,919	-	10,410,026
Supporting services:					
Management and general	755,051	-	-	-	755,051
Fundraising	787,993	-	-	-	787,993
TOTAL EXPENSES	11,464,425	373,726	114,919	-	11,953,070
CHANGE IN NET ASSETS	184,143	-	-	-	184,143
NET ASSETS, BEGINNING OF YEAR	30,295,686	-	-	-	30,295,686
NET ASSETS, END OF YEAR	$ 30,479,829	$ -	$ -	$ -	$ 30,479,829

OMB CIRCULAR A-133
SUPPLEMENTARY REPORTS

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2015

Federal Grantor / Pass-Through Agency / Program	Federal CFDA Number	Contract Number	Federal Expenditures
U.S. Department of Agriculture			
Passed through Arizona Department of Education			
Child and Adult Care Food Program	10.558	n/a	$ 593,201
Passed through Arizona Department of Education			
Summer Food Service Program for Children	10.559	n/a	293,673
Total U.S. Department of Agriculture			886,874
U.S. Department of Housing and Urban Development			
Passed through City of Phoenix			
Community Development Block Grants / Entitlement Grants	14.218	132809	60,872
Community Development Block Grants / Entitlement Grants	14.218	121982	40,000
Community Development Block Grants / Entitlement Grants	14.218	122441	39,979
Community Development Block Grants / Entitlement Grants	14.218	117546	11,880
Community Development Block Grants / Entitlement Grants	14.218	127427	40,800
Community Development Block Grants / Entitlement Grants	14.218	125758	53,280
Community Development Block Grants / Entitlement Grants	14.218	129690	54,900
Community Development Block Grants / Entitlement Grants	14.218	106873	13,000
Community Development Block Grants / Entitlement Grants	14.218	136847-0	60,000
Community Development Block Grants / Entitlement Grants	14.218	139107	23,488
Community Development Block Grants / Entitlement Grants	14.218	13791-0	30,519
Passed through City of Glendale			
Community Development Block Grants / Entitlement Grants	14.218	C-9302	9,952
Passed through City of Peoria			
Community Development Block Grants / Entitlement Grants	14.218	41014	6,630
Total U.S. Department of Housing and Urban Development			445,300
U.S. Department of Justice			
Passed through Boys and Girls Clubs of America			
Juvenile Mentoring Program	16.726	OJP 2014-34330	5,968
Juvenile Mentoring Program	16.726	OJP 2014-34331	7,500
Juvenile Mentoring Program	16.726	OJP 2014-34332	3,913
Juvenile Mentoring Program	16.726	OJP 2014-34333	7,465
Juvenile Mentoring Program	16.726	OJP 2014-34334	7,046
Total U.S. Department of Justice			31,892
U.S. Department of Health and Human Services			
Passed through Maricopa County Department of Public Health			
Teenage Pregnancy Prevention Program	93.297	860-10-32A	37,849
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,401,915

See Independent Auditors' Report
See Notes to Schedule of Expenditures of Federal Awards

(1) Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries*** under programs of the federal government for the year ended August 31, 2015. The information in this Schedule is presented in accordance with the requirements of the *Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries***, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows. ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries*** did not provide federal awards to sub-recipients during the year ended August 31, 2015.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in *OMB Circular A-122, Cost Principles for Non-profit Organizations*, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Loans outstanding

Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries had the following loan balances outstanding at August 31, 2015. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Federal Grantor/Program/Pass Through Agency	Federal CFDA Number	Pass-Through Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Passed through the City of Phoenix			
Community Development Block Grants/Entitlement Grants	14.218		
City of Phoenix		132809	$ 60,872
City of Phoenix		139791-0	30,519
City of Phoenix		121982	40,000
City of Phoenix		136847-0	60,000
City of Phoenix		106873	13,000
City of Phoenix		122441	39,979
City of Phoenix		117546	11,880
City of Phoenix		127427	40,800
City of Phoenix		125758	53,280
City of Phoenix		129690	54,900
Total loans outstanding			$ 405,230

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

To the Board of Directors of

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

We have audited, 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, the consolidated financial statements of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries,*** which comprise the consolidated statement of financial position as of August 31, 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 18, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** internal control. Accordingly, we do not express an opinion on the effectiveness of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** 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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** consolidated financial statements are free from material misstatement, we performed tests of their 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 consolidated 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.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
December 18, 2015

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

Report on Compliance for Each Major Federal Program

We have audited ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** major federal program for the year ended August 31, 2015. ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audits to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** compliance.

Opinion on the Major Federal Programs

In our opinion, ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries',*** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2015.

Report on Internal Control Over Compliance

Management of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiaries'*** internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
December 18, 2015

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2015

Section I – Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued:		Unmodified
Internal control over financial reporting:		
Material weakness(es) identified?	_______Yes	___X___No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_______Yes	___X___None reported
Noncompliance material to financial statements noted?	_______Yes	___X___No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_______Yes	___X___No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_______Yes	___X___None reported
Type of Auditor's Report issued on compliance for major programs:		Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	_______Yes	___X___No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program

Dollar threshold used to distinguish between type A and type B programs:		$ 300,000
Auditee qualified as a low-risk auditee?	___X___Yes	_______No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2015

Section II – Financial Statement Findings

None

Section III – Federal Awards Findings

None

Section IV – Status of Prior Years Findings

None