BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Big Brothers Big Sisters of Central Arizona
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Big Brothers Big Sisters of Central Arizona, which comprise the consolidated statement of financial position as of June 30, 2018, 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 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. 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.

A member of Nexia International

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Big Brothers Big Sisters of Central Arizona as of June 30, 2018, and the change 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 the 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
December 5, 2018

BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2017)

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 704,531	$ 607,245
Grants and Contributions Receivable	77,512	211,691
Investments	558,549	514,784
Prepaid Expenses and Other	31,296	41,342
Due from an Affiliate	54,590	48,023
Total Current Assets	1,426,478	1,423,085
PROPERTY AND EQUIPMENT, Net	81,139	64,276
OTHER ASSETS		
Cash Held for Endowment Funds	101,425	102,706
Unemployment Trust Fund	24,598	29,039
Other Assets	19,437	52,358
Total Other Assets	145,460	184,103
Total Assets	$ 1,653,077	$ 1,671,464
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 15,655	$ 2,074
Accrued Expenses	150,058	153,110
Current Maturities of Deferred Rent	15,340	10,291
Current Maturities of Obligation Under a Capital Lease	4,802	3,094
Total Current Liabilities	185,855	168,569
LONG-TERM LIABILITIES		
Deferred Rent, Less Current Maturities	59,805	75,145
Long-Term Obligation Under a Capital Lease, Net of Current Maturities	13,803	20,121
Total Long-Term Liabilities	73,608	95,266
Total Liabilities	259,463	263,835
NET ASSETS		
Unrestricted	1,194,451	1,156,915
Temporarily Restricted	99,163	150,714
Permanently Restricted	100,000	100,000
Total Net Assets	1,393,614	1,407,629
Total Liabilities and Net Assets	$ 1,653,077	$ 1,671,464

See accompanying Notes to Consolidated Financial Statements.

BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2017)

	2018				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	2017 Totals
PUBLIC SUPPORT AND REVENUES					
Public Support:					
Contributions	$ 330,805	$ 169,152	$ -	$ 499,957	$ 400,716
In-Kind Contributions	237,784	-	-	237,784	136,957
United Way	240,000	-	-	240,000	300,000
Big Brothers Big Sisters of Central Arizona Association	466,879	-	-	466,879	513,234
Grants and Contracts	550,801	-	-	550,801	581,542
Total Public Support	1,826,269	169,152	-	1,995,421	1,932,449
Revenues:					
Interest Income	10,182	35	-	10,217	7,571
Unrealized Gain on Investments	8,940	-	-	8,940	42,508
Dividend Income	29,807	-	-	29,807	6,378
Other	-	-	-	-	10,632
Total Revenues	48,929	35	-	48,964	67,089
Special Events:					
Revenue from Special Events	511,271	-	-	511,271	575,555
Less Costs of Direct Donor Benefits	(129,001)	-	-	(129,001)	(108,640)
Gross Profit on Special Events	382,270	-	-	382,270	466,915
Net Assets Released from Restrictions	220,738	(220,738)	-	-	-
Total Public Support, Revenues, and Special Events	2,478,206	(51,551)	-	2,426,655	2,466,453
EXPENSES					
Mentoring Program	1,875,964	-	-	1,875,964	1,767,394
Management and General	194,284	-	-	194,284	156,305
Fundraising	363,296	-	-	363,296	313,141
Total Expenses	2,433,544	-	-	2,433,544	2,236,840
OTHER EXPENSE					
Loss on Sale of Yavapai Land	7,126	-	-	7,126	-
CHANGES IN NET ASSETS	37,536	(51,551)	-	(14,015)	229,613
Net Assets - Beginning of Year	1,156,915	150,714	100,000	1,407,629	1,178,016
NET ASSETS - END OF YEAR	$ 1,194,451	$ 99,163	$ 100,000	$ 1,393,614	$ 1,407,629

See accompanying Notes to Consolidated Financial Statements.

BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2017)

	2018				
	Mentoring Program	Management and General	Fundraising	Total Functional Expenses	2017 Total
Salaries and Wages	$ 1,225,654	$ 84,475	$ 190,287	$ 1,500,416	$ 1,391,571
Employee Benefits	86,438	13,591	13,878	113,907	101,559
Employer Taxes	95,091	8,643	14,578	118,312	115,717
Professional and Contract Fees	55,293	55,603	74,404	185,300	167,322
Supplies	7,466	1,526	1,373	10,365	9,988
Telephone and Communications	19,368	1,091	1,346	21,805	24,122
Postage and Shipping	2,863	273	292	3,428	5,631
Occupancy	120,460	14,281	14,355	149,096	147,566
Equipment	6,338	2,502	688	9,528	17,449
Printing and Publications	195	17	6,454	6,666	4,703
Travel and Mileage	20,464	3,462	2,662	26,588	35,435
Conferences and Meetings	914	2,398	981	4,293	5,264
Program and Event Support	159,228	-	151,322	310,550	217,687
Recruitment and Public Relations	3,158	354	263	3,775	7,326
Dues and Subscriptions	21,602	2,028	4,624	28,254	19,329
License and Fees	8,083	743	10,745	19,571	21,461
Insurance	19,090	1,452	1,781	22,323	23,728
Interest	737	56	69	862	522
Depreciation	21,230	1,615	1,981	24,826	25,050
Bad Debts	2,292	174	214	2,680	4,050
Total Expenses	1,875,964	194,284	492,297	2,562,545	2,345,480
Less Expenses Included with Revenues on the Consolidated Statement of Activities:					
Direct Donor Benefits	-	-	(129,001)	(129,001)	(108,640)
Total Expenses included in the Consolidated Statement of Activities	$ 1,875,964	$ 194,284	$ 363,296	$ 2,433,544	$ 2,236,840

See accompanying Notes to Consolidated Financial Statements.

BIG BROTHERS BIG SISTERS OF CENTRAL ARIZONA
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	$ (14,015)	$ 229,613
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	24,826	25,050
Bad Debts	2,680	4,050
Loss on Sale of Yavapai Land	7,126	-
Unrealized Gains on Investments	(8,940)	(42,508)
Realized Gains on Investments	(157)	-
Increase (Decrease) in Cash Resulting from Changes in:		
Grants and Contributions Receivable	131,499	(62,357)
Prepaid Expenses and Other	10,046	12,415
Due from an Affiliate	(6,567)	1,087
Unemployment Trust Fund	4,441	(2,942)
Accounts Payable	13,581	(2,317)
Deferred Rent	(10,291)	(5,243)
Accrued Expenses	(3,052)	22,713
Net Cash Provided by Operating Activities	151,177	179,561
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(41,689)	(6,515)
Purchases of Investments	(39,560)	(15,529)
Proceeds from Sale of Investments	4,892	-
Endowment Cash Activity	1,281	2,738
Proceeds from Sale of Yavapai Land	25,795	-
Net Cash Used by Investing Activities	(49,281)	(19,306)
CASH FLOWS USED BY FINANCING ACTIVITIES		
Payments on Capital Lease Obligations	(4,610)	(6,779)
NET INCREASE IN CASH AND CASH EQUIVALENTS	97,286	153,476
Cash and Cash Equivalents - Beginning of Year	607,245	453,769
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 704,531	$ 607,245
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 862	$ 522
Equipment Purchased through a Capital Lease	$ -	$ 24,710

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Big Brothers Big Sisters of Central Arizona (BBBS) was incorporated in the state of Arizona and is a nonprofit corporation organized to provide guidance to boys and girls through association with appropriate role models. The mission of BBBS is to help children realize their potential through the development of professionally supported one to one relationships with volunteers who care about them. The vision of BBBS is that BBBS contributes to a healthier and stronger community by providing children with mentors who will help them succeed in life. The majority of BBBS revenue is derived from various fundraising activities, grants, and contracts with other nonprofit organizations, corporations, and local governments.

The Foundation for Valley Big Brothers Big Sisters (Foundation) was incorporated in the state of Arizona and is a nonprofit corporation organized to encourage and solicit gifts solely for the benefit of Big Brothers Big Sisters of Central Arizona. Since BBBS exercises control over the Foundation, its activities are consolidated with BBBS.

BBBS operates under an affiliation agreement with Big Brothers Big Sisters of Central Arizona Association (Association). BBBS and the Association each have a separate board of directors. The Association has no legal obligation to fund BBBS, but the intent is that they will work together.

Basis of Consolidation

The consolidated financial statements include both the accounts of BBBS and the Foundation (collectively referred to as the Agency). All of the financial activities and balances of these organizations are included in these consolidated financial statements. All significant inter-company balances and transactions have been eliminated in consolidation.

Basis of Presentation

The Agency's consolidated 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 Agency is required to report information regarding the financial position and activities according to 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 include all assets for which there are no donor-imposed restrictions and those for which the restrictions have been met in the same accounting period.

Temporarily Restricted Net Assets

Temporarily restricted net assets include all assets restricted by the donor for a particular purpose or time period.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Permanently Restricted Net Assets

Permanently restricted net assets include assets restricted by the donor that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Agency. Generally, the donor allows the Agency to use the earnings on permanently restricted net assets for operations.

Prior Year Summarized Information

The consolidated financial statements include prior year summarized comparative information in total. 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 consolidated financial statements as of and for the year ended June 30, 2017, from which the summarized information was derived.

Use of Estimates in the Preparation of 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.

Contributions

Under the Guidance, contributions, grants, and bequests including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions of services are recognized at their fair value if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Cash and Cash Equivalents

The Agency considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the consolidated statement of financial position. Investment income (including interest and dividends) and unrealized gains and losses are reported in the consolidated statement of activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included in support until the conditions are substantially met.

Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has made reasonable collection efforts are written off.

Management believes that all grants and contributions receivable at June 30, 2018 are fully collectible.

Property and Equipment

Property and equipment is initially recorded at cost and donated property is recorded at the fair value at the date of the gift. Contributions of nonfinancial assets are initially recorded at fair value and then carried at the lower of carrying value or fair value. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. Depreciation is provided using the straight-line method over estimated useful lives of the acquired and donated assets. The estimated useful lives range from 3 to 5 years. Repairs and maintenance are expensed as incurred.

The Agency capitalizes expenditures that are equal to or greater than $2,500. When items are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the consolidated statements of activities.

Impairment of Long-Lived Assets

The Agency reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future undiscounted net cash flows which the assets are expected to generate. 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. There were no such impairments of long-lived assets as of June 30, 2018.

Revenue Recognition

Revenue from exchange type contracts are recognized as the related qualifying expenditures are incurred.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

Noncash in-kind contributions are recorded as both revenue and expense at the estimated fair value in the consolidated financial statements if, among other things, the Agency would typically need to purchase these services if they were not provided by donation.

The Agency receives substantial support in the form of donated volunteer services. The value of these services is not recorded because they do not meet the requirements to be recorded in accordance with nonprofit accounting principles.

Noncash contributions of advertising, special event auction items and sporting event tickets are recorded at fair value at the time of donation. Items given away by the Agency as part of its program are recorded as an equal expense.

Special Events Revenue

The Agency conducts special events in which a portion of the gross proceeds paid by the participant represents payments 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 entertainment provided at special events is measured at the actual cost to the Agency. The direct costs of the special events which ultimately benefit the donor rather than the Agency are included in special events revenues and then expensed as costs of direct donor benefits.

Functional Expenses Classifications

The cost of providing program services and other activities has been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The allocation methods used are based on square footage, full-time equivalents, and other appropriate methods, and are subject to a certain degree of estimation by management.

Income Taxes

BBBS and the Foundation are exempt from federal and Arizona income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and, therefore, there is no provision for federal or state corporate income taxes. In addition, BBBS and the Foundation have been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Management believes that the Agency has no uncertain tax positions as of June 30, 2018.

NOTE 2 GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable are stated as the amount management expects to collect. All receivables are due within one year. There was no allowance for uncollectible accounts as of June 30, 2018. One contributor makes up 77% of the total grants and contributions receivable balance as of June 30, 2018.

NOTE 3 PROPERTY AND EQUIPMENT

At June 30, 2018, property and equipment were as follows:

Equipment	$ 202,799
Vehicles	25,965
Construction in Progress	21,383
Total	250,147
Less: Accumulated Depreciation	(169,008)
Property and Equipment, Net of Accumulated Depreciation	$ 81,139

Depreciation charged to operations was $24,826 for the year ended June 30, 2018.

NOTE 4 INVESTMENTS

At June 30, 2018, investments were as follows:

	Cost	Fair Value
Bonds	$ 59,946	$ 59,528
Mutual Funds	382,711	499,021
Total	$ 442,657	$ 558,549

The unrealized gains on investments were $8,940 for the year ended June 30, 2018.

NOTE 5 FAIR VALUE MEASUREMENTS

The Agency accounts for its investments at fair value. Accounting standards describe three levels of inputs that may be used to measure fair value, as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Agency can assess at the measurement date.

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

At June 30, 2018, all investments were classified within Level 1 because they are comprised of open-end mutual funds and government income bond funds with readily determinable fair values based on daily redemption values.

The following tables set forth, by level, within the fair value hierarchy, certain assets, and liabilities measured at fair value as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 499,021	$ -	$ -	$ 499,021
Bonds	59,528	-	-	59,528
Total	$ 558,549	$ -	$ -	$ 558,549

NOTE 6 COMMITMENTS

Operating Leases

The Agency is committed under an operating lease for office space. Rent expense under the office lease was $191,096 during the year ended June 30, 2018. The Association shares space with the Agency and was allocated rent expense of $42,000 for 2018.

Future minimum rental payments under noncancelable leases at June 30 are as follows:

Year Ending June 30,	Amount
2019	$ 208,812
2020	213,860
2021	218,909
2022	111,500
Total Future Minimum Lease Payments	$ 753,081

NOTE 6 COMMITMENTS (CONTINUED)

Other Commitment

The Agency entered into a yearly contract for grant writing services dated July 1. 2018. The yearly contract fee is $48,000.

NOTE 7 LINE OF CREDIT

The Agency has a $25,000 line of credit available with interest at the prime rate, or the floor rate of 5.00%. The line of credit was renewed to December 5, 2018 and is secured by the assets of the Foundation. The line of credit was not utilized during fiscal 2018, and had no outstanding balance as of June 30, 2018.

NOTE 8 CAPITAL LEASE OBLIGATION

Equipment held under a capital lease obligation had a cost of $24,710 at June 30, 2018. Accumulated depreciation associated with this equipment was $6,105 as of June 30, 2018.

Capital lease obligations as of June 30, 2018 are as follows:

Description	Amount
Copier machine, payable in monthly installments of $456, including interest at 4.08%, through March 2022, secured by the equipment.	$ 18,605
Less: Current Maturities	(4,802)
Long-Term Maturities of Capital Lease Obligations	$ 13,803

Future minimum payments under this commitment are as follows:

Year Ending June 30,	Amount
2019	$ 5,472
2020	5,472
2021	5,472
2022	3,648
Total Minimum Lease Payments	20,064
Less: Amount Representing Interest	(1,459)
Present Value of Minimum Lease Payments	$ 18,605

Interest expense associated with the capital lease totaled $862 during the year ended June 30, 2018.

NOTE 9 SPECIAL EVENTS REVENUE

Special events revenue is comprised of the following for the year ended June 30, 2018:

Bowl for Kids Sake	$	39,833
Annual Fund Raising Gala		199,259
FORE the Kids		56,986
Other Events		215,193
Total	$	511,271

Other event revenue consists of Paul’s Car Wash and various other events held throughout the year.

NOTE 10 IN-KIND CONTRIBUTIONS

The Agency received the following in-kind contributions for the year ended June 30, 2018:

Program:		
Donated Tickets	$	158,580
Other		2,513
Management and General:		
Legal Professional Services		24,517
Other		2,394
Fundraising:		
Special Event Items		49,780
Total	$	237,784

NOTE 11 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

Purpose Restriction	$	69,389
Scholarships		28,349
Endowment Earnings		1,425
Total	$	99,163

The net assets released from restrictions during the year ended June 30, 2018 were $220,738.

The Agency’s endowment consists of funds established to support the general purposes of the Agency. Its endowment consists of donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 11 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Interpretation of Relevant Law

The board of directors of the Agency has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Consequently, the Agency classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment, and
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency's board. In accordance with SPMIFA, the Agency considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purpose of the Agency and the donor-restricted endowment fund.
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. Other resources of the Agency.
7. The investment policies of the Agency.

Return Objectives and Risk Parameters

The Agency has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by the endowments. The endowment assets are invested in an interest bearing savings account.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	$ -	$ 1,425	$ 100,000	$ 101,425

Changes in endowment net assets for the fiscal year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - Beginning of Year	$ -	$ 2,706	$ 100,000	$ 102,706
Expenditures	-	(1,316)	-	(1,316)
Interest Income	-	35	-	35
Endowment Net Assets - End of Year	$ -	$ 1,425	$ 100,000	$ 101,425

NOTE 12 RELATED-PARTY TRANSACTIONS

The Agency recorded the following transactions with the Association for the year ended June 30, 2018:

Due from an Affiliate - Beginning of Year	$	48,023
Support from the Association		466,879
Salaries and Benefits		42,363
Other		65,114
Total		622,379
Payments from Affiliate		(567,789)
Due from an Affiliate - End of Year	$	54,590

The Agency purchases medical insurance through a board member owned company. During the year ended June 30, 2018, a total of $149,547 was paid and expensed for insurance premiums.

NOTE 13 MAJOR REVENUE SOURCES

Revenue derived from the Association represented approximately 19% of total public support, revenue, and special events during the year ended June 30, 2018.

Contributions from Valley of the Sun United Way represented approximately 10% of total public support, revenue, and special events during the year ended June 30, 2018.

NOTE 14 RETIREMENT PLAN

The Agency maintains a defined contribution retirement plan (the Plan) for its employees established under IRC Section 403(b). The Plan covers essentially all management and exempt employees, exclusive of those employees who have elected not to participate. The Agency makes contributions to the Plan at the discretion of the board of directors. The Agency contributions to the Plan approximated $6,435 for the year ended June 30, 2018.

NOTE 15 CONTINGENCY

The Agency participates in a number of federal and state-assisted grant and contract programs which are subject to financial and compliance audits. Accordingly, the Agency’s compliance with applicable grant or contract requirements may be determined at some future date. The amount, if any, of expenditures or fees for units of service which may be disallowed by the granting or contracting agencies cannot be determined at this time, although the Agency’s management expects such amounts, if any, to be immaterial.

NOTE 16 CONCENTRATION OF CREDIT RISKS

Financial instruments that potentially subject the Agency to concentration of credit risk consist principally of cash and cash equivalents. Cash is placed with high quality financial institutions; however, at times these cash balances exceed the FDIC insurance limit. Investments in mutual funds are not insured by the FDIC.

NOTE 17 SUBSEQUENT EVENTS

Management evaluated subsequent events through December 5, 2018, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2018, but prior to December 5, 2018, that provided additional evidence about conditions that existed at June 30, 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.

NOTE 18 NEW ACCOUNTING STANDARDS

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 Agency for the fiscal year ending June 30, 2019.

In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires the Agency to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Agency 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 Agency for the year ending June 30, 2020; however, early application is permitted.

NOTE 18 NEW ACCOUNTING STANDARDS (CONTINUED)

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 Agency for the year ending June 30, 2020; however, early application is permitted.

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 entity'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 entity's financial statements.

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