Financial Statements
June 30, 2016

Boys Hope Girls Hope of Arizona, Inc.

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
Boys Hope Girls Hope of Arizona, Inc.
Phoenix, Arizona

Report on the Financial Statements
We have audited the accompanying financial statements of Boys Hope Girls Hope of Arizona, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys Hope Girls Hope of Arizona, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Phoenix, Arizona
October 24, 2016

Assets	
Current Assets	
Cash	$ 1,199,813
Restricted cash	80,500
Current portion of promises to give, net	5,629
Accounts receivable	9,001
Prepaid expenses	2,805
Total current assets	1,297,748
Promises to Give, Net	20,873
Property and Equipment, Net	877,216
Total assets	$ 2,195,837
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	$ 21,012
Accrued expenses	44,814
Current maturities of capital lease obligation	1
Total current liabilities	65,827
Capital Lease Obligation, Less Current Portion	7
Total liabilities	65,834
Net Assets	
Unrestricted	
Undesignated	990,951
Board designated fund	1,025,000
	2,015,951
Temporarily restricted	33,552
Permanently restricted	80,500
Total net assets	2,130,003
Total liabilities and net assets	$ 2,195,837

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue				
Public support				
Contributions	$ 416,039	$ 7,500	$ -	$ 423,539
Donated materials and services	1,107,156	-	-	1,107,156
Total support from contributions	1,523,195	7,500	-	1,530,695
Special events				
Revenue	216,098	14,700	-	230,798
Less cost of direct benefits to donors	(55,386)	-	-	(55,386)
Net revenues from special events	160,712	14,700	-	175,412
Total public support	1,683,907	22,200	-	1,706,107
Other revenues				
Miscellaneous income	17,341	-	-	17,341
Interest and dividends	23,617	-	-	23,617
Loss on sale of equipment	(39,925)	-	-	(39,925)
Total other revenues	1,033	-	-	1,033
Total public support and revenue	1,684,940	22,200	-	1,707,140
Net assets released from restriction	36,467	(36,467)	-	-
Expenses				
Program services	1,397,874	-	-	1,397,874
Supporting services				
Fundraising	109,590	-	-	109,590
General and administrative	129,656	-	-	129,656
Total supporting services	239,246	-	-	239,246
Total expenses	1,637,120	-	-	1,637,120
Change in Net Assets	84,287	(14,267)	-	70,020
Net Assets, Beginning of Year	1,931,664	47,819	80,500	2,059,983
Net Assets, End of Year	$ 2,015,951	$ 33,552	$ 80,500	$ 2,130,003

	Program Services	Fundraising	General and Administrative	Total
Staff salaries	$ 351,259	$ 60,885	$ 56,201	$ 468,345
Payroll taxes and employee benefits	83,384	14,453	13,341	111,178
Total payroll costs	434,643	75,338	69,542	579,523
Assistance to youth	691,178	-	-	691,178
Depreciation	73,778	-	-	73,778
Payments to national affiliate	18,711	-	8,019	26,730
Occupancy	80,319	4,564	6,389	91,272
Newsletter and promotional	466	58	58	582
Transportation	42,465	-	-	42,465
Equipment rental	1,413	303	303	2,019
Professional fees	15,739	-	3,935	19,674
Insurance	20,972	-	6,991	27,963
Building furnishings	6,223	-	-	6,223
Supplies, stationary, and postage	7,676	1,097	2,193	10,966
Domestic supplies	1,546	-	-	1,546
Bank fees	-	-	5,634	5,634
Special events expenses - direct donor benefits	-	55,386	-	55,386
Bad debt expense	-	-	23,847	23,847
Operational expense third party events	-	28,230	-	28,230
Miscellaneous	2,745	-	2,745	5,490
Total functional expenses	1,397,874	164,976	129,656	1,692,506
Less expenses netted against revenues in the statement of activities (direct donor benefits)	-	(55,386)	-	(55,386)
Total functional expense reported in the statement of activities	$ 1,397,874	$ 109,590	$ 129,656	$ 1,637,120

Operating Activities	
Change in net assets	$ 70,020
Adjustments to reconcile change in net assets to net cash used in operating activities	
Noncash donation of property and equipment	(470,710)
Depreciation	73,778
Loss on sale of property and equipment	39,925
Amortization of discounts on promises to give	(427)
Changes in assets and liabilities	
Accounts receivable	(9,001)
Prepaid expenses	2,191
Promises to give	21,744
Accounts payable	(4,997)
Accrued expenses	2,264
Net Cash used in Operating Activities	(275,213)
Investing Activities	
Purchase of property and furnishings	(34,030)
Net Cash from Investing Activities	(34,030)
Financing Activities	
Payments on capital lease obligation	(1)
Net Increase in Cash	(309,244)
Cash, Beginning of Year	1,589,557
Cash, End of Year	$ 1,280,313

Note 1 - Nature of Operations and Significant Accounting Policies

Organization and Nature of Operations

In April 1989, Boys Hope of Arizona, Inc. was formed to help Arizona boys who are at-risk, yet academically capable to realize their potential for responsible leadership by providing value-centered family-like homes and quality education through college. In October 1997, the Boys Hope of Arizona, Inc.'s Articles of Incorporation were amended to include similar programs for Arizona girls and changed the name to Boys Hope Girls Hope of Arizona, Inc. (the Organization).

The Organization has two programs, residential and community based. The residential program recreates the supportive family dynamic that all children need. Committed professional houseparents provide the parenting that gives them the security and stability they need to excel, and a network of carefully screened and trained volunteers provides the academic support they will need to excel in the classroom. The community-based program offers the same arms-around, all-encompassing care as the residential program for children who do not require an out-of-home placement.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles, and reflect all significant principles, and accordingly, reflect all significant receivables, payables, and other liabilities. Net assets, revenues, and gains and losses are classified on the existence or absence of donor-imposed restrictions on contributions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Permanently restricted net assets – Net assets for which the donor's stipulated principal is to be maintained in perpetuity. The earnings of these funds are unrestricted and are allocable for specific purposes by the Organization's Board of Directors.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Realized and unrealized gains and losses on endowment investments are classified as temporarily restricted net assets until appropriated for expenditure, as explained in Note 6. Expirations of temporary restrictions on net assets, i.e., the donor-stipulated purposes have been fulfilled, and/or the stipulated time has elapsed, are reported as reclassifications between the applicable classes of net assets. Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted support.

Restricted Cash

For the year ended June 30, 2016, restricted cash of $80,500 represents cash restricted for the endowment balance.

Concentrations of Credit Risk

Cash includes cash held in checking, savings, and money market accounts. The Organization, at times, maintains cash at financial institutions in excess of the bank insured limit by the Federal Deposit Insurance Corporation. The Organization also maintains cash at a brokerage firm that is SIPC insured.

Donated Materials and Services

Donated materials and services are recorded at their fair market value on the date of the donation, and are carried at the lower of the originally recorded value, or fair market value. The following was recognized as donated materials and services revenue for the year ended June 30, 2016:

Donated property and equipment additions	$ 470,710
In kind rent	52,115
In kind tuition	579,059
Other donated gifts in kind	5,272
	$ 1,107,156

Promises to Give

Unconditional promises to give are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are originally restricted by the donor are reported as increases in unrestricted net assets in the year in which the restrictions are fulfilled. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Unconditional promises to give that are expected to be collected within one year are recorded as promises to give at net realizable value. Unconditional promises to give that are expected to be collected in future periods are recorded at the net present value of their estimated future cash flows. Amortization of the related discounts is included in promises to give. Conditional promises to give are not recognized as support until the conditions are substantially met.

Unconditional promises to give are stated at unpaid balances, net of discounts, less an allowance for doubtful accounts, as deemed necessary. The Organization provides for losses on promises to give using the allowance method. The allowance is based on experience, knowledge of the donors, the industry, and other circumstances which may affect the ability of donors to meet their obligations. It is the Organization’s policy to charge off uncollectable promises to give when management determines collection is doubtful.

Property and Equipment

Property and equipment are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from five to 30 years. The Organization’s capitalization policy requires individual assets to be capitalized if the original cost or fair market value at date of donation exceeds $2,500. Maintenance and repairs are charged to operations when incurred.

The Organization reviews its property and equipment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is less than the carrying amount of the asset. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value. For the year ended June 30, 2016, no impairment loss has occurred.

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Organization is organized as an Arizona non-profit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). The Organization is included as part of a group Return of Organization Exempt from Income Tax (Form 990) filed by Boys Hope Girls Hope national headquarters. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Use of Estimates

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

Subsequent Events

The Organization has evaluated subsequent events through October 24, 2016, the date which the financial statements were available to be issued.

Note 2 - Promises to Give

The current portion of promises to give is as follows at June 30, 2016:

Promises to give in one year or less	$	6,169
Less allowance for doubtful promises to give		(540)
Current portion	$	5,629

The noncurrent portion of promises to give is as follows at June 30, 2016:

Promises to give between one and five years	$	21,300
Less discounts to net present value		(427)
Noncurrent portion	$	20,873

The related cash flows are discounted over the collection period using a discount rate of 3.25%.

Note 3 - Property and Equipment

Property and equipment consisted of the following at June 30, 2016:

Land	$	130,111
Land held under capital lease		27,700
Girls home building		597,505
Boys home building		499,724
Furniture and fixtures		121,369
Vehicles		131,959
Computer equipment		42,139
Building improvements		7,100
		1,557,607
Accumulated depreciation		(680,391)
Property and equipment, net	$	877,216

Depreciation and amortization expense was $73,778 for the year ended June 30, 2016.

Note 4 - Capital Lease Obligation

On April 1, 1991, the Organization loaned funds for the construction of the Boys home building to Boys Hope Girls Hope, Inc. (National), a related party, in the amount of $218,439. The Organization received a note receivable from National for the same amount due in installments of $24,312 annually for 24 years. At the same time, the Boys home building was leased back from National under a capital lease agreement for 60 years. The capital lease had a present value of $218,439 and calls for an annual payment of $24,312 for the years one though 24 and $1 for the years 25 through 60. The agreement states that the Organization has the right to off-set its annual rent payment with the payment due to the Organization under the note, and the Organization has therefore not reflected the note receivable or the capital lease obligation in the accompanying financial statements. The agreement also stated that upon the termination date of the capital lease, title to the Boys home building shall automatically pass to the Organization.

On April 1, 1991, the Organization entered into a capital lease agreement under which it leases land from Boys Hope Girls Hope, Inc., a related party, for 60 years. The lease calls for annual payments of $3,083 for years one through 24 and $1 for years 25 through 60. The interest portion of the lease payments was computed using a rate of 10% per year. The agreement also states that upon the termination date of the capital lease, title to the land shall automatically pass to the Organization.

Minimum future lease payments under this capital lease at June 30, 2016 are as follows:

Year Ending June 30,		
2017	$	1
2018		1
2019		1
2020		1
Thereafter		30
Total minimum lease payments		34
Less amounts representing interest		(26)
Present value of minimum lease payments		8
Current maturities		1
Noncurrent maturities	$	7

Note 5 - Temporarily Restricted Net Assets

The temporarily restricted net assets are as follows for the fiscal year ended June 30, 2016:

Time restrictions		
Pledges receivable, net	$	26,052
Purpose restrictions		
Virginia G. Piper - Board and Management		7,500
	$	33,552

Note 6 - Endowment Net Assets

In previous years, the Organization received contributions in the amount of $161,000, of which $80,500 was released from restriction by the donor. Of these contributions, $80,500 remains permanently restricted. The money is to be invested indefinitely, and the income from the investment is to be used for specific purposes approved by the Organization's Board of Directors. The endowment consists entirely of donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Organization 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. As a result of this interpretation, the Organization classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization 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 purposes of 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 Organization, and (7) the investment policies of the Organization.

The composition of endowment net assets by fund type as of June 30, 2016 is as follows:

	Endowment Deficit	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2015	$ (2,045)	$ -	$ 80,500	$ 78,455
Investment return				
Investment income	1,664	-	-	1,664
Endowment draw for expenditure	-	-	-	-
Balance, June 30, 2016	$ (381)	$ -	$ 80,500	$ 80,119

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of SPMIFA requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were $381 as of June 30, 2016.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk parameters.

Spending Policy

The current spending policy is to spend the earnings on the endowment as approved by the Board of Directors for operating purposes. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the endowment fund, which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation.

Note 7 - Related Party

Payments to the national affiliate consist of dues paid to Boys Hope Girls Hope International (National) of $26,730 for the year ended June 30, 2016.

Accounts receivable to the national affiliate for dues paid to National are $3,501 for the year ended June 30, 2016.

The Organization leases its office space on a month-to-month basis from a partnership in which a member of the Board of Directors is a general partner. Total rent expense for the year ended June 30, 2016 was $55,385, which includes donated space in the amount of $52,115. The donated space is recorded as donated materials and services revenue in the statement of activities.

Note 8 - Retirement Plan

The Organization participated in a participant-directed 401(k) plan sponsored by National covering employees who meet specific service requirements. Contributions to the plan are participant-directed. The Organization contributed 3% of an eligible employee's salary, as defined, and matches 100% of the first 3% of employee contributions. Effective for the year ending June 30, 2011, the Organization temporarily suspended the match but continued to pay the associated account fees. Account fees during the year ended 2016 were $503.