

**BOYS & GIRLS CLUBS OF  
METROPOLITAN PHOENIX, INC.**

**FINANCIAL STATEMENTS**

Year Ended August 31, 2006

**BOYS & GIRLS CLUBS OF  
METROPOLITAN PHOENIX, INC.**

**FINANCIAL STATEMENTS**

Year Ended August 31, 2006

**CONTENTS**

	<u>Pages</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>FINANCIAL STATEMENTS</b>	
<b>Statement of Financial Position</b>	2
<b>Statement of Activities</b>	3
<b>Statement of Functional Expenses</b>	4
<b>Statement of Cash Flows</b>	5
<b>Notes to Financial Statements</b>	6 - 12



**Mayer Hoffman McCann P.C.**  
An Independent CPA Firm

3101 North Central Avenue, Suite 300  
Phoenix, Arizona 85012  
602-264-6835 ph  
602-265-7631 fx  
www.mhm-pc.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

### **BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.**

We have audited the accompanying statement of financial position of the *Boys & Girls Clubs of Metropolitan Phoenix, Inc.* (an Arizona non-profit organization) at August 31, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of *Boys & Girls Clubs of Metropolitan Phoenix, Inc.'s* management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Certain items were identified which required adjustment to previously issued financial statements. As described in Note 12, these items relate to the *Boys & Girls Clubs of Metropolitan Phoenix, Inc.'s* interest in the net assets of the Boys & Girls Clubs of Metropolitan Phoenix Foundation. The financial statements as of August 31, 2006 and for the year then ended have been restated for the effects of these adjustments.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the *Boys & Girls Clubs of Metropolitan Phoenix, Inc.* at August 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Phoenix, Arizona  
June 1, 2007

*Mayer Hoffman McCann P.C.*

# BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

## STATEMENT OF FINANCIAL POSITION

August 31, 2006  
(As restated)

### ASSETS

CURRENT ASSETS	
Cash	\$ 676,031
Receivables	1,692,668
Investments	535,038
Other current assets	94,825
TOTAL CURRENT ASSETS	<u>2,998,562</u>
RECEIVABLES	95,057
INVESTMENTS	1,234,940
PROPERTY AND EQUIPMENT, net	8,536,094
INTEREST IN FOUNDATION NET ASSETS	8,577,694
ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT	
Cash	364,669
Investments	953,422
Receivables	89,575
TOTAL ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT	<u>1,407,666</u>
CASH SURRENDER VALUE OF LIFE INSURANCE	<u>103,743</u>
TOTAL ASSETS	<u>\$ 22,953,756</u>

### LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 397,802
Accrued expenses	395,371
Deferred revenues	22,976
Other current liabilities	2,500
TOTAL CURRENT LIABILITIES	<u>818,649</u>
LONG-TERM DEBT	<u>190,000</u>
TOTAL LIABILITIES	<u>1,008,649</u>
NET ASSETS	
Unrestricted:	
Undesignated	16,247,690
Board designated	367,047
Total unrestricted net assets	<u>16,614,737</u>
Temporarily restricted	2,655,395
Permanently restricted	2,674,975
TOTAL NET ASSETS	<u>21,945,107</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,953,756</u>

See Notes to Financial Statements

# BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

## STATEMENT OF ACTIVITIES

Year Ended August 31, 2006  
(As restated)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
<b>SUPPORT AND REVENUES</b>				
Contributions	\$ 1,680,928	\$ 1,282,156	\$ -	\$ 2,963,084
United Way allocations	198,119	829,839	-	1,027,958
Governmental fees and grants	1,508,993	-	-	1,508,993
Program service fees	818,505	-	-	818,505
Change in interest in Foundation net assets	782,090	-	34,000	816,090
Donated materials and services	472,128	-	-	472,128
Investment income	139,999	-	-	139,999
Loss on sale disposal of property and equipment	(21,506)	-	-	(21,506)
Net realized and unrealized losses	(1,955)	-	-	(1,955)
Other	20,591	-	-	20,591
	<u>5,597,892</u>	<u>2,111,995</u>	<u>34,000</u>	<u>7,743,887</u>
Total support and revenues before special events and net assets released from restrictions				
Special events revenues	3,112,019	-	-	3,112,019
Less costs of direct donor benefits	(682,216)	-	-	(682,216)
Gross profit on special events	<u>2,429,803</u>	<u>-</u>	<u>-</u>	<u>2,429,803</u>
Net assets released from restrictions	<u>1,872,620</u>	<u>(1,872,620)</u>	<u>-</u>	<u>-</u>
<b>TOTAL SUPPORT AND REVENUES</b>	<u>9,900,315</u>	<u>239,375</u>	<u>34,000</u>	<u>10,173,690</u>
<b>EXPENSES</b>				
<b>Programs:</b>				
Social adjustment, development and recreation	6,894,659	-	-	6,894,659
<b>Supporting services:</b>				
Management and general	379,478	-	-	379,478
Fundraising	<u>1,144,560</u>	<u>-</u>	<u>-</u>	<u>1,144,560</u>
<b>TOTAL EXPENSES</b>	<u>8,418,697</u>	<u>-</u>	<u>-</u>	<u>8,418,697</u>
<b>CHANGE IN NET ASSETS</b>	1,481,618	239,375	34,000	1,754,993
<b>NET ASSETS, BEGINNING OF YEAR, as previously reported</b>	12,932,020	2,416,020	4,842,074	20,190,114
Reclassification of net assets	<u>2,201,099</u>	<u>-</u>	<u>(2,201,099)</u>	<u>-</u>
<b>NET ASSETS, BEGINNING OF YEAR, as restated</b>	<u>15,133,119</u>	<u>2,416,020</u>	<u>2,640,975</u>	<u>20,190,114</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 16,614,737</u>	<u>\$ 2,655,395</u>	<u>\$ 2,674,975</u>	<u>\$ 21,945,107</u>

See Notes to Financial Statements

# BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2006  
(As restated)

	<b>Social Adjustment, Development and Recreation Programs</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Totals</b>
<b>Personnel costs:</b>				
Salaries	\$ 3,281,691	\$ 129,245	\$ 361,919	\$ 3,772,855
Employee benefits	444,077	18,472	30,165	492,714
Payroll taxes	296,861	13,368	31,965	342,194
<b>Total personnel costs</b>	<b>4,022,629</b>	<b>161,085</b>	<b>424,049</b>	<b>4,607,763</b>
Professional fees	240,504	46,483	139,801	426,788
Supplies	608,602	12,591	20,680	641,873
Occupancy	508,472	25,395	25,870	559,737
Insurance	184,485	12,444	388	197,317
Telephone	98,694	12,563	11,406	122,663
Conferences, conventions and meetings	31,056	49,517	63,296	143,869
Repairs and maintenance	127,467	4,385	107,488	239,340
Youth assistance	106,759	-	-	106,759
Transportation	85,445	2,640	4,613	92,698
Printing and publication	38,611	6,302	175,906	220,819
Training	25,591	2,956	2,584	31,131
Marketing	600	24	97,436	98,060
National dues	20,305	-	-	20,305
Postage	3,306	5,030	9,635	17,971
Other	3,123	5,214	34,030	42,367
<b>Total expenses before depreciation expense</b>	<b>6,105,649</b>	<b>346,629</b>	<b>1,117,182</b>	<b>7,569,460</b>
Depreciation expense	789,010	32,849	27,378	849,237
<b>TOTAL EXPENSES</b>	<b>\$ 6,894,659</b>	<b>\$ 379,478</b>	<b>\$ 1,144,560</b>	<b>\$ 8,418,697</b>

See Notes to Financial Statements

# BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

## STATEMENT OF CASH FLOWS

Year Ended August 31, 2006  
(As restated)

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 1,754,993
Adjustment to reconcile change in net assets to net cash used in operating activities:	
Depreciation	849,237
Unrealized loss on investments	3,707
Loss on sale disposal of property and equipment	21,506
Realized gains on investments	(1,752)
Contributed property and equipment included in support	(156,757)
Contributions restricted to investment in property and equipment	(1,128,696)
Change in interest in Foundation net assets	(816,090)
Changes in operating assets and liabilities:	
Increase in:	
Receivables	(457,573)
Other current assets	(32,347)
Increase (decrease) in:	
Accounts payable	(397,553)
Accrued expenses	41,354
Deferred revenues	(47,848)
Net cash used in operating activities	<u>(367,819)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of property and equipment	(1,439,562)
Purchases of assets restricted to investment in property and equipment	(1,039,121)
Purchases of investments	(627,902)
Change in cash surrender value of life insurance	(5,018)
Proceeds from sale of assets restricted to investment in property and equipment	1,702,925
Proceeds from sales of investments	639,000
Net cash used in investing activities	<u>(769,678)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Collection of contributions restricted to investment in property and equipment	1,039,121
Proceeds from long-term debt borrowings	125,000
Net cash provided by financing activities	<u>1,164,121</u>
<b>NET CHANGE IN CASH</b>	26,624
<b>CASH, BEGINNING OF YEAR</b>	<u>649,407</u>
<b>CASH, END OF YEAR</b>	<u>\$ 676,031</u>

### SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

The Clubs received contributions of property and equipment with a fair market value of \$156,757 in 2006.

See Notes to Financial Statements

# BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2006

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

**Nature of operations** - The Boys & Girls Clubs of Metropolitan Phoenix, Inc. (the "Clubs"), an Arizona nonprofit corporation, is affiliated with the Boys & Girls Clubs of America, a national organization. The Clubs operate ten clubhouses, one dental clinic, four juvenile correctional outreach programs, 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. The Boys & Girls Clubs of Metropolitan Phoenix "...The Positive Place for Kids."

In prior years, the Clubs elected to present its financial statements on a combined basis with the Foundation. In 2006 management has elected to present the Clubs' financial statements separate from that of the Foundation. Such reporting is permitted under the American Institute of Certified Public Accountants' Statement of Position (SOP) 94-3, *Reporting of Related Entities by Not-for-Profit Organizations* as the Clubs do not control the Foundation and only economic interest is present.

The significant accounting policies followed by the Clubs are as follows:

**Basis of presentation** - The accompanying financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Clubs are required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Management's use of estimates** - The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 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.

# BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2006

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

**Contributions** - The Clubs account for contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. 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 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** - 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).

**Contributions receivable** - Contributions receivable include unconditional promises to give that are recognized as revenue in the period when the promise to give is received as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they are based are substantially met. The Clubs have approximately \$8,200,000 in conditional pledges relating to its Capital Campaign that have not been recognized as their conditions have not been substantially met. Long-term pledges have been discounted to present value.

**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 revenue and a credit to a valuation allowance based on its assessment of the current status of the individual agreement. 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 SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or change 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 2006.

# BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2006

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

**Assets restricted to investment in property and equipment** - Assets restricted to investment in property and equipment consist of capital campaign pledges and cash that are restricted by donors for improvements to specific Club locations.

**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 statements of activities.

**Donated materials and services** - Donated materials and professional services are reflected as contributions in the statement of activities at their estimated values at the date of receipt. No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under the guidelines of SFAS No. 116; however, a substantial number of volunteers have donated significant amounts of their time in the Clubs' program services and fund-raising campaigns.

The Clubs received the following donated materials and services:

	<u>Used for</u>	
Professional services	Various	\$ 149,535
Property and equipment	Program	156,757
Other	Various	165,836
		<u>\$ 472,128</u>

**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 qualifies 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.

### (2) Receivables

Receivables consist of:

United Way allocations	\$ 829,839
Grants and contracts	725,214
Unconditional promises to give	195,057
Program receivables	11,826
Event receivables	5,000
Other receivables	<u>20,789</u>
Total receivables	1,787,725
Less current portion	<u>(1,692,668)</u>
Noncurrent portion	<u>\$ 95,057</u>

# BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2006

### (2) Receivables (continued)

The Clubs' receivables consist of amounts due from government agencies and other low risk parties and, accordingly, credit risk is limited. All receivable balances at August 31, 2006 are considered fully collectible by management and, accordingly, an allowance for doubtful accounts has not been provided.

Unconditional promises to give for the support of operations of the Club are included in receivables on the accompanying statement of financial position. Unconditional promises to give for the support of the Capital Campaign are included in assets restricted to investment in property and equipment on the accompanying statement of financial position. Total unconditional promises to give consist of:

	<u>Kieckhefer Operations</u>	<u>Capital Campaign</u>	<u>Totals</u>
Receivable in less than one year	\$ 100,000	\$ 20,000	\$ 120,000
Receivable in two to five years	100,000	80,000	180,000
Total unconditional promises to give	200,000	100,000	300,000
Discount to net present value	(4,943)	(10,425)	(15,368)
Net unconditional promises to give	195,057	89,575	284,632
Less current portion	(100,000)	-	(100,000)
Noncurrent portion	\$ 95,057	\$ 89,575	\$ 184,632

The cash flows for the unconditional promises to give were discounted over the collection period using an interest rate of 5.5%, based on the Clubs' incremental borrowing rate at the measurement date.

### (3) Investments

The Clubs account for investments in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, 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 value of investments are based on quoted market prices.

Investments consist of:

U.S. Government and corporate bonds	\$ 2,720,899
Stock	2,501
Total investments	2,723,400
Less current portion	(535,038)
Noncurrent investments	2,188,362
Less investments restricted to investment in property and equipment	(953,422)
Noncurrent portion	\$ 1,234,940

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 financial statements.

# BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2006

### (4) Property and equipment

Property and equipment consist of:

Cost and donated value:

Land and land improvements	\$ 1,129,247
Buildings and improvements	11,543,584
Furniture and equipment	1,908,537
Construction in progress	<u>1,084,812</u>
Total cost and donated value	15,666,180
Accumulated depreciation	<u>(7,130,086)</u>
Property and equipment, net	<u>\$ 8,536,094</u>

Depreciation expense charged to operations was \$849,237 for 2006.

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

### (5) 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 statement of activities as other income and expenses.

### (6) Long-term debt

Long-term debt consists of interest free notes totaling \$190,000 to the City of Phoenix for the rehabilitation of the Rosenzweig gymnasium, Stewart roof renovation, and Homes doors and fascia. The principal balance of the notes is forgiven from the certificate of completion date (January 10, 2005, January 15, 2006, and April 19, 2006, 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.

### (7) Temporarily restricted net assets

Temporarily restricted net assets consist of:

Purpose restrictions:

Facilities remodel	\$ 1,265,846
Operations	261,321
Scholarship fund	156,569
Capital campaign	141,820

Time restrictions:

United Way	<u>829,839</u>
Total temporarily restricted net assets	<u>\$ 2,655,395</u>

Over each of the last five years, the Clubs have undertaken a major renovation project of one of its clubhouses. At August 31, 2006, the Stewart Branch is nearing completion of a full renovation. The cost of the Stewart Branch renovation is estimated to be \$1.6 million, with approximately \$745,000 incurred as of August 31, 2006. It is the Clubs' practice to secure funding commitments for each project in advance of entering into construction agreements. The capital campaign funds are restricted for the purpose of constructing three new clubhouses. If the Clubs fail to comply with the grant restrictions, the Clubs will be required to repay the full amount of the note on demand.

# BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2006

### (8) Operating leases

The Clubs have various operating leases for equipment, which expire through 2009. Minimum future rental payments under these noncancellable operating leases are as follows:

#### Years Ending August 31,

2007	\$ 49,813
2008	20,997
2009	<u>17,514</u>
Total minimum future rental payments	<u>\$ 88,324</u>

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 \$32,853 in 2006.

### (9) 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 10% of eligible salaries. Total pension expense was \$197,705 for 2006.

### (10) Related party transactions

The Clubs received contributions from board of director members of approximately \$434,770 in 2006. Approximately \$371,218 of the amount received in 2006 consisted of donated materials and services which were recorded at the estimated fair market value of the materials and services provided.

The Clubs received revenues from their national affiliate, The Boys and Girls Club of America, of approximately \$136,500 in 2006.

The Clubs paid dues to their national affiliate, The Boys and Girls Club of America, of \$20,305 in 2006.

### (11) Interest in Foundation net assets

The Clubs and the Boys & Girls Clubs of Metropolitan Phoenix Foundation ("Foundation"), a separate 501(c)(3) organization, are financially interrelated organizations as defined by SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. 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. This economic interest recorded represents the Clubs beneficial interest in the net assets of the Foundation. The Clubs' beneficial interest in the net assets of the Foundation totaled \$8,577,694 as of August 31, 2006.

Summarized financial information of the Foundation as of and for the year ended August 31, 2006, is as follows:

Total assets	\$ 8,577,694
Total liabilities	-
Total net assets	<u>\$ 8,577,694</u>
Total revenue	<u>\$ 855,496</u>
Total expense	<u>\$ 39,406</u>

**BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Year Ended August 31, 2006

**(12) Restatement and prior period adjustment**

Subsequent to the original issuance of the August 31, 2006 financial statements, management discovered certain items that required adjustment to the Clubs' previously issued 2006 financial statements. These items and their impact on the Clubs' financial statements are described below.

Of the \$8,577,694 of beneficial interest described in Note 11 above, \$4,945,158 was previously reported as funds where the donors stipulated the principal was to be maintained in perpetuity and were included in permanently restricted net assets. Subsequent to August 31, 2006, Foundation management discovered an item that required adjustment to the Foundation's financial statements. For the year ended August 31, 2006, permanently restricted contributions as previously reported totaled \$103,084. Based upon further review, Foundation management determined that \$69,084 of these contributions were not donor restricted. Accordingly, the accompanying financial statements have been restated as of August 31, 2006 to reclassify \$69,084 of the Clubs' change in interest in Foundation net assets from permanently restricted to unrestricted.

Additionally, Foundation management determined that \$2,201,099 of unrestricted net assets were erroneously included in permanently restricted net assets as of August 31, 2005. The accompanying financial statements have been restated as of August 31, 2005 to reflect an increase in unrestricted net assets and a decrease in permanently restricted net assets of \$2,201,099 relative to the Clubs' interest in the net assets of the Foundation.