

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

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

Year Ended August 31, 2011

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Year Ended August 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

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

We have audited the accompanying consolidated statement of financial position of the **Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary** at August 31, 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of **Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary's** management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the **Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary's** 2010 consolidated financial statements and, in our report dated December 1, 2010 we expressed an unqualified opinion on those consolidated financial statements.

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

In our opinion, the 2011 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the **Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary** at August 31, 2011, and the changes in their net assets and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011 on our consideration of the **Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

Our audit was performed 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 as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and related 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 other 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 procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Phoenix, Arizona
December 6, 2011

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive style.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

August 31, 2011
(with comparative totals at August 31, 2010)

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 1,054,957	\$ 854,688
Receivables	1,558,571	1,414,659
Investments	986,870	380,505
Other current assets	<u>76,170</u>	<u>88,335</u>
TOTAL CURRENT ASSETS	3,676,568	2,738,187
INVESTMENTS	5,320,966	5,635,559
PROPERTY AND EQUIPMENT, net	18,004,344	18,174,469
INTEREST IN FOUNDATION NET ASSETS	7,049,989	6,996,660
DEFERRED FINANCING COSTS, net	334,068	451,975
PROPERTY HELD FOR SALE	240,872	240,872
ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT		
Pledges receivable, net	<u>-</u>	<u>38,958</u>
CASH SURRENDER VALUE OF LIFE INSURANCE	<u>122,574</u>	<u>117,112</u>
TOTAL ASSETS	<u>\$ 34,749,381</u>	<u>\$ 34,393,792</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 105,011	\$ 149,210
Accrued expenses	254,084	269,304
Deferred revenues	62,144	35,967
Current maturities of long-term debt	37,880	13,000
Other current liabilities	<u>2,500</u>	<u>6,500</u>
TOTAL CURRENT LIABILITIES	461,619	473,981
LONG-TERM DEBT, less current maturities	<u>10,531,377</u>	<u>10,514,357</u>
TOTAL LIABILITIES	<u>10,992,996</u>	<u>10,988,338</u>
NET ASSETS		
Unrestricted:		
Undesignated	13,814,740	13,147,496
Board designated	<u>5,505,796</u>	<u>5,795,389</u>
Total unrestricted net assets	19,320,536	18,942,885
Temporarily restricted	1,475,591	1,534,343
Permanently restricted	<u>2,960,258</u>	<u>2,928,226</u>
TOTAL NET ASSETS	<u>23,756,385</u>	<u>23,405,454</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,749,381</u>	<u>\$ 34,393,792</u>

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Totals</u>	
		<u>Restricted</u>	<u>Restricted</u>	<u>2011</u>	<u>2010</u>
SUPPORT AND REVENUES					
Contributions	\$ 3,298,103	\$ 224,011	\$ -	\$ 3,522,114	\$ 2,839,667
United Way allocations	174,550	808,844	-	983,394	1,019,977
Governmental fees and grants	1,043,698	-	-	1,043,698	973,016
Program service fees	882,843	-	-	882,843	940,190
Change in interest in Foundation net assets	(1,022)	22,319	32,032	53,329	312,799
Donated materials and services	1,053,985	-	-	1,053,985	375,232
Investment income	254,257	-	-	254,257	176,296
Loss on sale or disposal of property and equipment	(80,714)	-	-	(80,714)	(23,100)
Net realized and unrealized gains	4,033	-	-	4,033	272,227
Other	218,720	-	-	218,720	107,753
Total support and revenues before special events and net assets released from restrictions	<u>6,848,453</u>	<u>1,055,174</u>	<u>32,032</u>	<u>7,935,659</u>	<u>6,994,057</u>
Special events revenues	1,892,133	-	-	1,892,133	2,285,107
Less costs of direct donor benefits	<u>(360,006)</u>	<u>-</u>	<u>-</u>	<u>(360,006)</u>	<u>(733,008)</u>
Gross profit on special events	<u>1,532,127</u>	<u>-</u>	<u>-</u>	<u>1,532,127</u>	<u>1,552,099</u>
Net assets released from restrictions	<u>1,113,926</u>	<u>(1,113,926)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>9,494,506</u>	<u>(58,752)</u>	<u>32,032</u>	<u>9,467,786</u>	<u>8,546,156</u>
EXPENSES					
Programs:					
Social adjustment, development and recreation	8,117,539	-	-	8,117,539	8,726,654
Supporting services:					
Management and general	338,729	-	-	338,729	377,834
Fundraising	<u>660,587</u>	<u>-</u>	<u>-</u>	<u>660,587</u>	<u>1,107,117</u>
TOTAL EXPENSES	<u>9,116,855</u>	<u>-</u>	<u>-</u>	<u>9,116,855</u>	<u>10,211,605</u>
CHANGE IN NET ASSETS	<u>377,651</u>	<u>(58,752)</u>	<u>32,032</u>	<u>350,931</u>	<u>(1,665,449)</u>
NET ASSETS, BEGINNING OF YEAR	<u>18,942,885</u>	<u>1,534,343</u>	<u>2,928,226</u>	<u>23,405,454</u>	<u>25,070,903</u>
NET ASSETS, END OF YEAR	<u>\$ 19,320,536</u>	<u>\$ 1,475,591</u>	<u>\$ 2,960,258</u>	<u>\$ 23,756,385</u>	<u>\$ 23,405,454</u>

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

	Social Adjustment, Development and Recreation Programs	Management and General	Fundraising	Totals	
				2011	2010
Personnel costs:					
Salaries	\$ 3,586,999	\$ 129,196	\$ 379,122	\$ 4,095,317	\$ 4,799,083
Employee benefits	345,567	15,356	53,942	414,865	489,673
Payroll taxes	351,135	9,988	30,040	391,163	429,079
Total personnel costs	4,283,701	154,540	463,104	4,901,345	5,717,835
Professional fees	201,071	26,845	29,978	257,894	215,345
Supplies	750,221	7,612	5,501	763,334	770,868
Occupancy	471,854	25,244	20,381	517,479	691,977
Insurance	159,939	8,430	6,283	174,652	200,770
Telephone	54,562	10,816	8,988	74,366	106,161
Conferences, conventions and meetings	6,094	13,357	4,566	24,017	54,881
Repairs and maintenance	98,071	20,094	15,192	133,357	104,823
Youth assistance	47,663	-	-	47,663	55,045
Transportation	66,065	536	991	67,592	68,708
Printing and publication	26,297	35,696	32,674	94,667	57,317
Training	13,513	789	916	15,218	21,488
Marketing	-	-	19,385	19,385	56,266
National dues	27,318	-	-	27,318	27,143
Postage	3,889	4,403	4,569	12,861	11,563
Interest and fees	701,373	405	306	702,084	701,689
Donation to affiliate	-	-	3,750	3,750	15,000
Other	11,631	7,068	26,941	45,640	52,573
Total expenses before depreciation expense	6,923,262	315,835	643,525	7,882,622	8,929,452
Depreciation expense	1,194,277	22,894	17,062	1,234,233	1,282,153
TOTAL EXPENSES	\$ 8,117,539	\$ 338,729	\$ 660,587	\$ 9,116,855	\$ 10,211,605

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 350,931	\$ (1,665,449)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,234,233	1,282,153
Amortization of deferred financing costs	117,907	117,907
Unrealized (gains) losses on investments	33,095	(55,919)
Realized (gains) losses on investments	(37,128)	(216,308)
Loss on sale or disposal of property and equipment	80,714	23,100
Forgiveness of debt	(13,000)	(13,000)
Contributed property and equipment included in support	(759,154)	(90,954)
Contributed securities	(38,538)	(82,618)
Change in interest in Foundation net assets	(53,329)	(312,799)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	(143,912)	698,479
Other current assets	12,165	(19,604)
Increase (decrease) in:		
Accounts payable	(44,199)	44,308
Accrued expenses	(15,220)	(26,590)
Deferred revenues	26,177	28,116
Other current liabilities	(4,000)	3,000
Net cash provided by (used in) operating activities	<u>746,742</u>	<u>(286,178)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(423,268)	(416,996)
Purchases of investments	(6,361,496)	(6,135,805)
Additions to property held for sale	-	(11,809)
Change in cash surrender value of life insurance	(5,462)	(2,116)
Proceeds from sale of property and equipment	37,600	21,000
Proceeds from sale of assets whose use is limited	-	87,142
Proceeds from sales of investments	<u>6,112,295</u>	<u>6,135,145</u>
Net cash used in investing activities	<u>(640,331)</u>	<u>(323,439)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted to investment in property and equipment	38,958	-
Proceeds from long-term debt borrowings	<u>54,900</u>	<u>51,000</u>
Net cash provided by financing activities	<u>93,858</u>	<u>51,000</u>
NET CHANGE IN CASH	200,269	(558,617)
CASH, BEGINNING OF YEAR	<u>854,688</u>	<u>1,413,305</u>
CASH, END OF YEAR	<u>\$ 1,054,957</u>	<u>\$ 854,688</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 517,463</u>	<u>\$ 512,883</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		

The Clubs received contributions of property and equipment with a fair value of \$759,154 in 2011 and \$90,954 in 2010. Additionally the Clubs received contributions of securities with a fair value of \$38,538 in 2011 and \$82,618 in 2010.

The Clubs received \$13,000 of forgiveness of debt for the years ended August 31, 2011 and 2010.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

(1) Clubs operations and summary of significant accounting policies

Nature of operations - The *Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary* (the "Clubs"), an Arizona nonprofit corporation, is affiliated with the Boys & Girls Clubs of America, a national organization. The Clubs operate twelve clubhouses, one dental clinic, two 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 14,000 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.

The significant accounting policies followed by the Clubs and its subsidiary BG Development, LLC, collectively referred to in these consolidated financial statements as the "Clubs" are summarized below:

The Financial Accounting Standards Board ("FASB") sets generally accepted accounting principles ("GAAP") to ensure consistent reporting. References to GAAP are to the *FASB Accounting Standards Codification* ("FASB ASC").

Basis of presentation - The accompanying consolidated financial statements are presented in accordance with FASB 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 Subsidiary* include the accounts of the Clubs and its wholly owned subsidiary BG Development, 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 U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Clubs' consolidated financial statements for the year ended August 31, 2010, from which the summarized information was derived.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

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

Management's use of estimates - The preparation of consolidated 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 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 - 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 organization'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 receivable's collectibility. 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

(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 its 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 2011 or 2010.

Assets restricted to investment in property and equipment - Assets restricted to investment in property and equipment consisted of capital campaign pledges that were 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 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 fund-raising campaigns. Management estimates that the unrecorded value of donated services was \$254,994 and \$299,561 for the years ended August 31, 2011 and 2010, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

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

The Clubs received the following donated materials and services:

	<u>Used for</u>	<u>2011</u>	<u>2010</u>
Professional services	Various	\$ -	\$ 8,400
Property and equipment	Program	759,154	90,954
Other	Various	294,831	275,878
		<u>\$ 1,053,985</u>	<u>\$ 375,232</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 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 is treated as a disregarded entity 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 had 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 Exempt Organization Business Income Tax Returns (Form 990) for 2008, 2009 and 2010 are subject to examination by the IRS, generally for the three years after they were filed. As of the date of this report, the 2011 Form 990 has not been filed.

Subsequent events - The Clubs have evaluated events through December 6, 2011 which is the date the consolidated financial statements were available to be issued.

(2) Receivables

Receivables consist of the following:

	<u>2011</u>	<u>2010</u>
United Way allocations	\$ 808,844	\$ 832,713
Unconditional promises to give	442,913	402,843
Grants and contracts	186,578	109,346
Event receivables	75,362	37,021
Program receivables	-	5,824
Other receivables	44,874	26,912
Total receivables	<u>\$ 1,558,571</u>	<u>\$ 1,414,659</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

(2) Receivables (continued)

The Clubs' receivables consist of amounts due from United Way, related parties, government agencies and other low risk parties and, accordingly, credit risk is limited. All receivable balances at August 31, 2011 and 2010 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 Clubs are included in receivables in the accompanying consolidated 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 in the accompanying consolidated statement of financial position. Total unconditional promises to give for the support of operation of the Clubs consist entirely of receivables due in less than one year as of August 31, 2011 and 2010.

(3) Capital campaign pledges receivable

During 2004, the Clubs began a capital campaign to raise funds for improvements to an expansion of their facilities. In 2009, the capital campaign reached its goal of \$10,800,000 for the purpose of constructing three new clubhouses. Capital campaign pledges receivable consisted of total pledges outstanding of \$38,958, net of a discount to present value of \$1,042 at August 31, 2010.

The estimated cash flows for capital campaign pledges receivable were discounted over the collection period using a discount rate of 5.5%. The outstanding pledges were collected in full during the year ended August 31, 2011.

Capital campaign pledges receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based upon its assessment of the current status of individual balances. 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 unconditional capital campaign pledges receivable. Capital campaign pledges receivable were considered by management to be fully collectible at August 31, 2010 and, accordingly, an allowance for doubtful accounts was not provided.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

(4) 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. Certificates of deposit are held to maturity and carried at amortized cost (which approximates fair value). The fair values of these investments are based on quoted market prices. 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, 2011:

Capital appreciation mutual funds:

Global and international	\$ 291,572
Other equity mutual funds	323,594
Asset allocation funds	<u>1,288,009</u>
Total capital appreciation mutual funds	1,903,175

Capital preservation funds:

Fixed income bond mutual funds-short term	1,321,687
Fixed income bond mutual funds-other	2,735,133
Money market funds	240,946
Other capital preservation funds	59,571
Cash and cash equivalents	<u>47,324</u>
Total capital preservation funds	<u>4,404,661</u>

Total investments

	6,307,836
Less current portion	<u>(986,870)</u>
Noncurrent investments	<u>\$ 5,320,966</u>

Investments consist of the following at August 31, 2010:

Mutual funds - fixed income	\$ 3,670,447
Money market funds	1,369,267
Mutual funds - equity	886,753
Cash and cash equivalents	4,799
Common stock	<u>84,798</u>
Total investments	6,016,064
Less current portion	<u>(380,505)</u>
Noncurrent investments	<u>\$ 5,635,559</u>

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 \$11,319 and \$10,391 for the years ended August 31, 2011 and 2010, respectively, and are included in professional fees in the accompanying consolidated statement of functional expenses.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

(4) Investments (continued)

The Clubs investments are primarily invested for long-term goals, including debt repayment, and are reported as long-term assets, with the exception of certain investments held for operating needs which are reported as current assets.

The Clubs have ownership of certain cash and cash equivalents that, while they are readily available, it is the intention of the Club to hold these cash and cash equivalents for investment purposes and, accordingly, these cash and cash equivalents are classified as investments in the consolidated financial statements.

(5) Property and equipment

Property and equipment consist of:

	<u>2011</u>	<u>2010</u>
Cost and donated value:		
Land and land improvements	\$ 1,318,263	\$ 1,288,449
Buildings and improvements	25,152,160	25,003,201
Furniture and equipment	2,159,778	2,342,818
Construction in progress	<u>57,616</u>	<u>25,021</u>
Total cost and donated value	28,687,817	28,659,489
Accumulated depreciation	<u>(10,683,473)</u>	<u>(10,485,020)</u>
Property and equipment, net	<u>\$ 18,004,344</u>	<u>\$ 18,174,469</u>

Depreciation expense charged to operations was \$1,234,233 for 2011 and \$1,282,153 for 2010.

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

(6) Property held for sale

Property held for sale consists of the following:

	<u>2011</u>	<u>2010</u>
Glendale property	\$ 163,976	\$ 163,976
Show Low property	<u>76,896</u>	<u>76,896</u>
	<u>\$ 240,872</u>	<u>\$ 240,872</u>

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. As of August 31, 2011, both properties were actively being marketed for sale. Property held for sale is carried at the lesser of the book value or fair value. No impairment charges were recorded for 2011 or 2010.

(7) Deferred financing costs

Certain costs incurred in connection with the loan agreement described in Note 9 amounting to \$825,347 have been deferred and are being amortized to operations using the straight-line method (which approximates the effective interest rate method) over 7 years, the term of the loan. Accumulated amortization of these financing costs total \$491,279 and \$373,372 at August 31, 2011 and 2010, respectively. Amortization expense totaled \$117,907 for each of the years ended August 31, 2011 and 2010, and is included in interest expense on the accompanying consolidated statements of functional expenses.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

(8) 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 as other income and expenses.

(9) Long-term debt

In June 2007, the Clubs, through BG Development, LLC, entered into a loan agreement that consists of two notes, note A and note B, with JP Morgan Chase through New Markets Investment XXVI, LLC. Note A consists of borrowings of \$7,173,888, with interest payable monthly at 6.95%. Note B consists of borrowings of \$2,357,852 of principal and unpaid financing costs of \$501,670, with interest payable monthly at 0.50%. The notes contain certain compliance provisions that limit the use of the property during a compliance period that expires in June 2014. Upon the expiration of the compliance period, management may elect, at its sole discretion, to execute a call option agreement that accelerates the maturity dates of the notes to July 1, 2014. If management elects to accelerate the maturity dates of the notes, the repayment amount at the accelerated maturity date would equal the outstanding principal balance of note A, plus \$254,234 in termination fees, with the principal balance of note B forgiven in full. If management does not elect to execute the call option agreement, the notes will mature in June 2037, at which time all outstanding principal of notes A and B will be due.

The amounts borrowed under notes A and B, except for legal fees and closing costs included in Note 7 above, were used to fund construction of three new clubhouses on school district properties. The loan is collateralized by investments held by the Clubs and shared use agreements on the new clubhouses with the respective school districts. Other collateral is provided by the Boys & Girls Clubs of Metropolitan Phoenix Foundation (the "Foundation") through a pledge agreement on a portion of their investments. This pledge agreement calls for the Clubs to pay the Foundation a pro rata portion of any return earned by the Clubs on investments relating to this loan. The amount of this return is not measurable and therefore not recorded in the accompanying consolidated financial statements.

Long-term debt also consists of interest free notes payable to the City of Phoenix for the rehabilitation of the Rosenzweig gymnasium, Stewart roof renovation, Homes doors and fascia, Kieckhefer interior renovation, Gabel gymnasium, Kieckhefer exterior renovation, Stewart gym floor, and bleachers. The principal balance of the notes is forgiven from the certificate of completion date (January 10, 2005, May 25, 2007, November 7, 2007, April 1, 2008, April 10, 2009, November 15, 2009, March 29, 2010, and June 30, 2011, 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, 2011 and 2010, \$535,847 and \$493,947 were outstanding under these notes, respectively.

Estimated annual maturities of long-term debt outstanding, assuming management executes the call option noted above, at August 31, 2011 are as follows:

Years Ending August 31,

2012	\$	37,880
2013		77,869
2014		10,111,279
2015		88,389
2016		88,389
Subsequent to 2016		165,451
Total annual debt maturities	\$	<u>10,569,257</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

(10) Board designated unrestricted assets

The board of directors has designated portions of the unrestricted net assets for various purposes, including a future balloon payment on long-term debt, the purchase of supplies, special projects, and operating reserves.

(11) Temporarily restricted net assets

Temporarily restricted net assets consist of:	<u>2011</u>	<u>2010</u>
Purpose restrictions:		
Capital campaign and facilities remodel	\$ 58,750	\$ 38,958
Operations	340,478	443,672
Unappropriated investment earnings on the Foundation's endowment	22,319	-
Scholarship fund	245,200	219,000
Time restrictions:		
United Way	<u>808,844</u>	<u>832,713</u>
Total temporarily restricted net assets	<u>\$ 1,475,591</u>	<u>\$ 1,534,343</u>

(12) 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 16.

(13) Leases

Operating leases - The Clubs have various operating leases for equipment, which expire through 2016. Minimum future rental payments under these noncancellable operating leases are as follows:

<u>Years Ending August 31,</u>	
2012	\$ 36,890
2013	36,890
2014	36,890
2015	25,313
2016	<u>180</u>
Total minimum future rental payments	<u>\$ 136,163</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 \$40,086 and \$43,835 in 2011 and 2010, 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 has one option to extend for another two years. The lease includes a termination clause in the event that the Clubs obtain an offer to purchase the building from a third party. The current lessee has the Right of First Refusal to purchase the property in the event that the Clubs receive a bonafide, good faith written offer from a third party to purchase the property. Future minimum rental payments under this lease total \$18,367 for the year ending August 31, 2012.

Rental income of \$29,000 for 2011 is included in program service fees in the accompanying consolidated statement of activities.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

(14) 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 2011 and 2010. Total pension expense was \$144,793 for 2011 and \$135,353 for 2010.

(15) Related party transactions

The Clubs received contributions from board of director members of \$1,315,898 in 2011 and \$497,651 in 2010. Approximately \$521,901 of the amount received in 2011 and \$45,113 of the amount received in 2010 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 \$218,254 in 2011 and \$186,509 in 2010.

The Clubs paid dues to their national affiliate, The Boys and Girls Clubs of America, of \$27,318 in 2011 and \$27,143 in 2010.

The Clubs received contributions from a related organization, Boys & Girls Clubs of Metropolitan Phoenix Foundation of \$373,108 in 2011 and \$399,718 in 2010, which are included in unconditional promises to give at year-end.

(16) 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 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 \$7,049,989 and \$6,996,660 as of August 31, 2011 and 2010, respectively.

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

	<u>2011</u>	<u>2010</u>
Total assets	\$ 7,457,302	\$ 7,418,255
Total liabilities	\$ 407,313	\$ 421,595
Net assets		
Unrestricted net assets	\$ 4,067,412	\$ 4,068,434
Temporarily restricted net assets	22,319	-
Permanently restricted net assets	2,960,258	2,928,226
Total net assets	\$ 7,049,989	\$ 6,996,660
Total revenue	\$ 520,195	\$ 806,722
Total expense	\$ 466,866	\$ 493,923

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

(17) Fair value measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles 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.

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, 2011:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Capital appreciation mutual funds:				
Global and international	\$ 291,572	\$ 291,572	\$ -	\$ -
Other equity mutual funds	323,594	323,594	-	-
Asset allocation funds	<u>1,288,009</u>	<u>1,288,009</u>	<u>-</u>	<u>-</u>
Total capital appreciation mutual funds	1,903,175	1,903,175	-	-
Capital preservation funds:				
Fixed income bond mutual funds-short term	1,321,687	1,321,687	-	-
Fixed income bond mutual funds-other	2,735,133	2,735,133	-	-
Money market funds	240,946	240,946	-	-
Other capital preservation funds	<u>59,571</u>	<u>-</u>	<u>-</u>	<u>59,571</u>
Total capital preservation funds	<u>4,357,337</u>	<u>4,297,766</u>	<u>-</u>	<u>59,571</u>
Total investments at fair value	<u>\$ 6,260,512</u>	<u>\$ 6,200,941</u>	<u>\$ -</u>	<u>\$ 59,571</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

(17) 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, 2010:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds – fixed income	\$ 3,670,447	\$ 3,670,447	\$ -	\$ -
Money market funds	1,369,267	1,369,267	-	-
Mutual funds - equity	886,753	886,753	-	-
Common stock	<u>84,798</u>	<u>-</u>	<u>-</u>	<u>84,798</u>
Total	<u>\$ 6,011,265</u>	<u>\$ 5,926,467</u>	<u>\$ -</u>	<u>\$ 84,798</u>

The Clubs had no other assets or liabilities that were measured at fair value other than at initial recognition.

The table below presents the change in fair value measurements that used Level 3 inputs during the year ended August 31, 2011:

	<u>Other capital preservation funds</u>
Balance at September 1, 2010	\$ 84,798
Unrealized losses	<u>(25,227)</u>
Balance at August 31, 2011	<u>\$ 59,571</u>

The table below presents the change in fair value measurements that used Level 3 inputs during the year ended August 31, 2010:

	<u>Common stock</u>	<u>Mortgage backed securities</u>	<u>Total</u>
Balance at September 1, 2009	\$ 4,001	\$ 126,688	\$ 130,689
Conversion to common stock	80,797	(80,797)	-
Unrealized losses	<u>-</u>	<u>(45,891)</u>	<u>(45,891)</u>
Balance at August 31, 2010	<u>\$ 84,798</u>	<u>\$ -</u>	<u>\$ 84,798</u>

During 2010, the Clubs adopted additional provisions of FASB ASC 820 that became effective during the year related to an investment whose fair value is reported at the net asset value ("NAV") of the investment. In accordance with FASB ASC 820, the Clubs are required to disclose the nature and risks of the investment reported at NAV. The following table summarizes the nature and risk of the investment as of August 31, 2011:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
IMH Class B stock	\$ 55,570	\$ -	Quarterly after 6 months	90 Days

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2011
(with comparative totals for the year ended August 31, 2010)

(17) Fair value measurements (continued)

The following table summarizes the nature and risk of the investment as of August 31, 2010:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
IMH Class B stock	\$ 80,797	\$ -	Quarterly after 6 months	90 Days

The IMH stock is not publicly traded and is being held by a custodian until IMH completes an initial public offering or decides not to pursue an offering. Any time after the six-month anniversary of the earlier of the consummation of an initial public offering or the 90th day after the board of directors of IMH determines that it will not pursue an initial public offering, 25% of the Class B shares will be eligible to convert into shares of IMH Financial common stock and will not be subject to restrictions. Any time after the nine-month anniversary of the earlier of the consummation of an initial public offering or the 90th day after the board of directors of IMH determines that it will not pursue an initial public offering, 25% of the Class B shares will be eligible to convert into shares of IMH Financial common stock and will not be subject to restrictions. Any time after the twelve-month anniversary of the earlier of the consummation of an initial public offering or the 90th day after the board of directors of IMH determines that it will not pursue an initial public offering, 50% of the Class B shares will be eligible to convert into shares of IMH Financial common stock and will not be subject to restrictions. IMH Financial is a real estate based investment company.

ADDITIONAL INFORMATION



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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Our report on our audit of the consolidated financial statements of **Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary** appears on page 1. The audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating statement of financial position and the consolidating statement of activities that follow on pages 20 and 21 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of activities of the individual organizations. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, accordingly, we express no opinion or other form of assurance on such information.

Phoenix, Arizona
December 6, 2011

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive, flowing script.

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

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

August 31, 2011

ASSETS

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	Eliminations and Consolidations	Total
CURRENT ASSETS				
Cash	\$ 1,051,310	\$ 3,647	\$ -	\$ 1,054,957
Receivables	1,558,571	-	-	1,558,571
Investments	986,870	-	-	986,870
Other current assets	76,170	-	-	76,170
TOTAL CURRENT ASSETS	3,672,921	3,647	-	3,676,568
RECEIVABLE FROM SUBSIDIARY	1,646,469	-	(1,646,469)	-
INVESTMENT IN SUBSIDIARY	(999,908)	-	999,908	-
INVESTMENTS	5,320,966	-	-	5,320,966
PROPERTY AND EQUIPMENT, net	7,662,088	10,342,256	-	18,004,344
INTEREST IN FOUNDATION NET ASSETS	7,049,989	-	-	7,049,989
DEFERRED FINANCING COSTS, net	-	334,068	-	334,068
PROPERTY HELD FOR SALE	240,872	-	-	240,872
CASH SURRENDER VALUE OF LIFE INSURANCE	122,574	-	-	122,574
TOTAL ASSETS	\$ 24,715,971	\$ 10,679,971	\$ (646,561)	\$ 34,749,381

LIABILITIES AND NET ASSETS (DEFICIT)

CURRENT LIABILITIES				
Accounts payable	\$ 105,011	\$ -	\$ -	\$ 105,011
Payable to Parent	-	1,646,469	(1,646,469)	-
Accrued expenses	254,084	-	-	254,084
Deferred revenues	62,144	-	-	62,144
Current maturities of long-term debt	37,880	-	-	37,880
Other current liabilities	2,500	-	-	2,500
TOTAL CURRENT LIABILITIES	461,619	1,646,469	(1,646,469)	461,619
LONG-TERM DEBT, less current maturities	497,967	10,033,410	-	10,531,377
TOTAL LIABILITIES	959,586	11,679,879	(1,646,469)	10,992,996
NET ASSETS (DEFICIT)				
Unrestricted:				
Undesignated	13,814,740	(999,908)	999,908	13,814,740
Board designated	5,505,796	-	-	5,505,796
Total unrestricted net assets (deficit)	19,320,536	(999,908)	999,908	19,320,536
Temporarily restricted	1,475,591	-	-	1,475,591
Permanently restricted	2,960,258	-	-	2,960,258
TOTAL NET ASSETS (DEFICIT)	23,756,385	(999,908)	999,908	23,756,385
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 24,715,971	\$ 10,679,971	\$ (646,561)	\$ 34,749,381

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

CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended August 31, 2011

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	Eliminations and Consolidations	Total
SUPPORT AND REVENUES				
Contributions	\$ 3,522,114	\$ -	\$ -	\$ 3,522,114
United Way allocations	983,394	-	-	983,394
Governmental fees and grants	1,043,698	-	-	1,043,698
Program service fees	882,843	-	-	882,843
Change in interest in Foundation net assets	53,329	-	-	53,329
Donated materials and services	1,053,985	-	-	1,053,985
Investment income	254,095	162	-	254,257
Loss on sale or disposal of property and equipment	(80,714)	-	-	(80,714)
Net realized and unrealized gains	4,033	-	-	4,033
Loss from subsidiary	(531,956)	-	531,956	-
Other	218,720	624,714	(624,714)	218,720
Total support and revenues before special events	<u>7,403,541</u>	<u>624,876</u>	<u>(92,758)</u>	<u>7,935,659</u>
Special events revenues	1,892,133	-	-	1,892,133
Less costs of direct donor benefits	(360,006)	-	-	(360,006)
Gross profit on special events	<u>1,532,127</u>	<u>-</u>	<u>-</u>	<u>1,532,127</u>
TOTAL SUPPORT AND REVENUES	<u>8,935,668</u>	<u>624,876</u>	<u>(92,758)</u>	<u>9,467,786</u>
EXPENSES				
Programs:				
Social adjustment, development and recreation	7,585,421	1,156,855	(624,737)	8,117,539
Supporting services:				
Management and general	338,729	-	-	338,729
Fundraising	660,587	-	-	660,587
TOTAL EXPENSES	<u>8,584,737</u>	<u>1,156,855</u>	<u>(624,737)</u>	<u>9,116,855</u>
CHANGE IN NET ASSETS (DEFICIT)	350,931	(531,979)	531,979	350,931
NET ASSETS, BEGINNING OF YEAR	<u>23,405,454</u>	<u>(467,929)</u>	<u>467,929</u>	<u>23,405,454</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ 23,756,385</u>	<u>\$ (999,908)</u>	<u>\$ 999,908</u>	<u>\$ 23,756,385</u>

See Independent Auditors' Report on Additional Information

**OMB CIRCULAR A-133
SUPPLEMENTARY REPORTS**

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2011

<u>Federal Grantor / Pass-Through Agency / Program</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
Pass through Arizona Department of Education Child and Adult Care Food Program	10.558	n/a	\$ 317,329
Pass through Arizona Department of Education Summer Food Service Program for Children	10.559	n/a	<u>143,744</u>
Total U.S. Department of Agriculture			<u>461,073</u>
U.S. Department of Housing and Urban Development			
Pass through City of Phoenix			
Community Development Block Grants / Entitlement Grants	14.218	129694	40,000
Community Development Block Grants / Entitlement Grants	14.218	129290	25,000
Community Development Block Grants / Entitlement Grants	14.218	129690	54,900
Community Development Block Grants / Entitlement Grants	14.218	122441	99,947
Community Development Block Grants / Entitlement Grants	14.218	117546	59,400
Community Development Block Grants / Entitlement Grants	14.218	121982	100,000
Community Development Block Grants / Entitlement Grants	14.218	125758	66,600
Community Development Block Grants / Entitlement Grants	14.218	102061	39,000
Community Development Block Grants / Entitlement Grants	14.218	127427	51,000
Community Development Block Grants / Entitlement Grants	14.218	106873	65,000
Pass through City of Glendale			
Community Development Block Grants / Entitlement Grants	14.218	C-7424	16,433
Pass through City of Peoria			
Community Development Block Grants / Entitlement Grants	14.218	46910	<u>39,500</u>
Total U.S. Department of Housing and Urban Development			<u>656,780</u>
U.S. Department of Justice			
Pass through Boys and Girls Clubs of America			
Juvenile Mentoring Program	16.726	OJP 2010-19029	100,000
Recovery Act - Edward Byrne Memorial Competitive Grant Program	16.808	ARRA 2009-17606	4,989
Recovery Act - Edward Byrne Memorial Competitive Grant Program	16.808	ARRA 2009-17604	4,743
Pass through City of Phoenix			
Community Capacity Development Office	16.595	130122	<u>7,741</u>
Total U.S. Department of Justice			<u>117,473</u>
U.S. Department of Energy			
Pass through State of Arizona			
State Energy Program	81.041	G11-004	<u>48,349</u>
U.S. Department of Health and Human Services			
Pass through Maricopa County Department of Public Health			
Teenage Pregnancy Prevention Program	93.297	PH NOI 10-032	<u>9,435</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,293,110</u>

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2011

(1) Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of **Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary** and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic consolidated financial statements. **Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary** did not provide federal awards to sub-recipients during the year ended August 31, 2011.

(2) Catalog of federal domestic assistance (CFDA) numbers

The program titles and CFDA numbers were obtained from the 2011 *Catalog of Federal Domestic Assistance*.

(3) Loans outstanding

Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary had the following loan balances outstanding at August 31, 2011. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

<u>Federal Grantor/Program/Pass Through Agency</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development			
Community Development Block			
Grants/Entitlement Grants			
	14.218		
City of Phoenix		121982	\$ 100,000
City of Phoenix		102061	39,000
City of Phoenix		106873	65,000
City of Phoenix		122441	99,947
City of Phoenix		117546	59,400
City of Phoenix		127427	51,000
City of Phoenix		125758	66,600
City of Phoenix		129690	<u>54,900</u>
Total loans outstanding			<u>\$ 535,847</u>



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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 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 at August 31, 2011, and have issued our report thereon dated December 6, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary*** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary's*** internal control over financial reporting as a basis for designing our auditing procedures 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 Subsidiary's*** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary's*** internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, specific legislative and regulatory bodies and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Phoenix, Arizona
December 6, 2011

Mayer Hoffma McCa P.C.



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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of

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

Compliance

We have audited ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary*** compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary's*** major federal programs for the year ended August 31, 2011. ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary's*** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary's*** management. Our responsibility is to express an opinion on ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary's*** compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 audit 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 Subsidiary's*** 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. Our audit does not provide a legal determination of ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary's*** compliance with those requirements.

In our opinion, ***Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary*** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011.

Internal Control Over Compliance

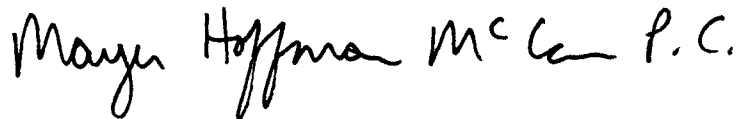
Management of **Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 **Boys & Girls Clubs of Metropolitan Phoenix, Inc. and Subsidiary's** internal control over compliance.

A deficiency in internal control over compliance 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, 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, specific legislative and regulatory bodies and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Phoenix, Arizona
December 6, 2011

A handwritten signature in black ink that reads "Mayer Hoffman McCa P.C." The signature is written in a cursive, flowing style.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2011

Section I – Summary of Auditor’s Results

Financial Statements

Type of Auditor’s Report Issued: Unqualified

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: Unqualified

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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant/Entitlement Grants

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2011

Section II – Financial Statement Findings

None

Section III – Federal Awards Findings

None

Section IV – Status of Prior Years Findings

None