

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

**CONSOLIDATED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

Year Ended August 31, 2008

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

**CONSOLIDATED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

Year Ended August 31, 2008

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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, 2008, 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 2007 consolidated financial statements and, in our report dated November 12, 2007, we expressed an unqualified opinion on those consolidated financial statements.

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 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 2008 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, 2008, 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.

Phoenix, Arizona
November 25, 2008

Mayer Hoffman McCann P.C.

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

August 31, 2008
(with comparative totals at August 31, 2007)

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 2,334,993	\$ 1,756,402
Receivables	1,513,869	1,126,542
Investments	78,148	627,410
Other current assets	<u>135,685</u>	<u>101,237</u>
TOTAL CURRENT ASSETS	4,062,695	3,611,591
INVESTMENTS	183,442	671,806
PROPERTY AND EQUIPMENT, net	13,131,004	9,073,600
INTEREST IN FOUNDATION NET ASSETS	8,469,503	9,535,339
DEFERRED FINANCING COSTS, net	687,789	805,696
ASSETS WHOSE USE IS LIMITED	4,671,516	9,300,000
ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT		
Investments	5,466,702	3,021,303
Pledges receivable, net	73,958	869,246
Construction in progress	<u>1,340,767</u>	<u>740,951</u>
TOTAL ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT	6,881,427	4,631,500
CASH SURRENDER VALUE OF LIFE INSURANCE	<u>111,928</u>	<u>108,160</u>
TOTAL ASSETS	<u>\$ 38,199,304</u>	<u>\$ 37,737,692</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 1,269,769	\$ 220,952
Accrued expenses	383,831	321,462
Deferred revenues	4,139	69,531
Other current liabilities	<u>2,500</u>	<u>2,500</u>
TOTAL CURRENT LIABILITIES	1,660,239	614,445
LONG-TERM DEBT	<u>10,422,757</u>	<u>10,272,745</u>
TOTAL LIABILITIES	<u>12,082,996</u>	<u>10,887,190</u>
NET ASSETS		
Unrestricted:		
Undesignated	14,214,087	17,225,459
Board designated	<u>206,330</u>	<u>356,214</u>
Total unrestricted net assets	14,420,417	17,581,673
Temporarily restricted	8,802,815	6,455,304
Permanently restricted	<u>2,893,076</u>	<u>2,813,525</u>
TOTAL NET ASSETS	<u>26,116,308</u>	<u>26,850,502</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 38,199,304</u>	<u>\$ 37,737,692</u>

See Notes to Consolidated Financial Statements

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended August 31, 2008
(with comparative totals for the year ended August 31, 2007)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2008</u>	<u>2007</u>
SUPPORT AND REVENUES					
Contributions	\$ 2,419,707	\$ 2,126,827	\$ -	\$ 4,546,534	\$ 6,538,465
United Way allocations	194,792	878,458		1,073,250	1,063,926
Governmental fees and grants	819,052	499,816	-	1,318,868	1,471,000
Program service fees	930,873	-	-	930,873	980,245
Change in interest in Foundation net assets	(1,145,387)	-	79,551	(1,065,836)	957,645
Donated materials and services	648,951	-	-	648,951	494,366
Investment income	589,552	-	-	589,552	250,272
Loss on sale or disposal of property and equipment	(18,939)	-	-	(18,939)	(1,561)
Net realized and unrealized (losses) gains	(868,634)	-	-	(868,634)	99,826
Other	10,899	-	-	10,899	6,292
Total support and revenues before special events and net assets released from restrictions	<u>3,580,866</u>	<u>3,505,101</u>	<u>79,551</u>	<u>7,165,518</u>	<u>11,860,476</u>
Special events revenues	3,331,609	-	-	3,331,609	3,179,669
Less costs of direct donor benefits	<u>(982,193)</u>	<u>-</u>	<u>-</u>	<u>(982,193)</u>	<u>(1,059,560)</u>
Gross profit on special events	<u>2,349,416</u>	<u>-</u>	<u>-</u>	<u>2,349,416</u>	<u>2,120,109</u>
Net assets released from restrictions	<u>1,157,590</u>	<u>(1,157,590)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>7,087,872</u>	<u>2,347,511</u>	<u>79,551</u>	<u>9,514,934</u>	<u>13,980,585</u>
EXPENSES					
Programs:					
Social adjustment, development and recreation	8,672,300	-	-	8,672,300	7,478,535
Supporting services:					
Management and general	383,723	-	-	383,723	453,565
Fundraising	<u>1,193,105</u>	<u>-</u>	<u>-</u>	<u>1,193,105</u>	<u>1,143,090</u>
TOTAL EXPENSES	<u>10,249,128</u>	<u>-</u>	<u>-</u>	<u>10,249,128</u>	<u>9,075,190</u>
CHANGE IN NET ASSETS	<u>(3,161,256)</u>	<u>2,347,511</u>	<u>79,551</u>	<u>(734,194)</u>	<u>4,905,395</u>
NET ASSETS, BEGINNING OF YEAR	<u>17,581,673</u>	<u>6,455,304</u>	<u>2,813,525</u>	<u>26,850,502</u>	<u>21,945,107</u>
NET ASSETS, END OF YEAR	<u>\$ 14,420,417</u>	<u>\$ 8,802,815</u>	<u>\$ 2,893,076</u>	<u>\$ 26,116,308</u>	<u>\$ 26,850,502</u>

See Notes to Consolidated Financial Statements

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2008
(with comparative totals for the year ended August 31, 2007)

	Social Adjustment, Development and Recreation Programs	Management and General	Fundraising	Totals	
				2008	2007
Personnel costs:					
Salaries	\$ 3,749,343	\$ 141,628	\$ 579,858	\$ 4,470,829	\$ 4,258,624
Employee benefits	486,649	23,952	92,279	602,880	484,864
Payroll taxes	356,190	12,558	51,931	420,679	393,465
Total personnel costs	4,592,182	178,138	724,068	5,494,388	5,136,953
Professional fees	139,351	31,579	46,342	217,272	375,462
Supplies	937,936	12,837	28,238	979,011	760,026
Occupancy	641,745	23,404	31,331	696,480	672,388
Insurance	163,073	9,335	9,811	182,219	221,625
Telephone	102,387	6,720	7,104	116,211	96,040
Conferences, conventions and meetings	51,104	44,431	117,983	213,518	198,325
Repairs and maintenance	143,132	17,043	12,034	172,209	174,304
Youth assistance	76,036	-	-	76,036	73,741
Transportation	101,691	1,706	3,685	107,082	78,045
Printing and publication	38,115	5,532	58,449	102,096	121,343
Training	35,059	1,224	1,308	37,591	37,086
Marketing	-	-	70,655	70,655	81,373
National dues	25,188	-	-	25,188	23,547
Postage	4,393	3,180	9,113	16,686	20,363
Interest	703,066	218	176	703,460	111,802
Other	19,282	4,526	38,966	62,774	47,570
Total expenses before depreciation expense	7,773,740	339,873	1,159,263	9,272,876	8,229,993
Depreciation expense	898,560	43,850	33,842	976,252	845,197
TOTAL EXPENSES	\$ 8,672,300	\$ 383,723	\$ 1,193,105	\$ 10,249,128	\$ 9,075,190

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended August 31, 2008
(with comparative totals for the year ended August 31, 2007)

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (734,194)	\$ 4,905,395
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	976,252	845,197
Amortization of deferred financing costs	117,907	19,651
Unrealized losses (gains) on investments	739,900	(114,828)
Realized losses on investments	128,734	15,002
Loss on sale or disposal of property and equipment	18,939	1,561
Contributed property and equipment included in support	(295,035)	(105,163)
Contributed securities	(340,701)	-
Contributions restricted to investment in property and equipment	(2,271,428)	(3,396,448)
Change in interest in Foundation net assets	1,065,836	(957,645)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	(387,327)	661,183
Other current assets	(34,448)	(6,412)
Increase (decrease) in:		
Accounts payable	1,048,817	(176,850)
Accrued expenses	62,369	(73,909)
Deferred revenues	<u>(65,392)</u>	<u>46,555</u>
Net cash provided by operating activities	<u>30,229</u>	<u>1,663,289</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(5,357,375)	(2,020,052)
Investment of assets whose use is limited	-	(9,300,000)
Purchases of assets restricted to investment in property and equipment	(3,066,716)	(2,616,777)
Purchases of investments	(3,596,914)	(918,425)
Change in cash surrender value of life insurance	(3,768)	(4,417)
Proceeds from sale of assets whose use is limited	4,628,484	-
Proceeds from sale of assets restricted to investment in property and equipment	621,314	913,565
Proceeds from sales of investments	<u>4,106,609</u>	<u>1,489,013</u>
Net cash used in investing activities	<u>(2,668,366)</u>	<u>(12,457,093)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted to investment in property and equipment	3,066,716	2,616,777
Payments for deferred financing costs	-	(825,347)
Proceeds from long-term debt borrowings	<u>150,012</u>	<u>10,082,745</u>
Net cash provided by financing activities	<u>3,216,728</u>	<u>11,874,175</u>
NET CHANGE IN CASH	578,591	1,080,371
CASH, BEGINNING OF YEAR	<u>1,756,402</u>	<u>676,031</u>
CASH, END OF YEAR	<u>\$ 2,334,993</u>	<u>\$ 1,756,402</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 585,552</u>	<u>\$ 111,802</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING AND INVESTING ACTIVITIES

The Clubs received contributions of property and equipment with a fair market value of \$295,035 in 2008 and \$105,163 in 2007. Additionally the Clubs received contributions of securities with a fair market value of \$340,701 in 2008.

See Notes to Consolidated Financial Statements

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2008
(with comparative totals for the year ended August 31, 2007)

(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 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 32,300 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."

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.

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:

Basis of presentation - The accompanying consolidated 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 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, 2007, from which the summarized information was derived.

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2008
(with comparative totals for the year ended August 31, 2007)

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

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 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 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).

Promises to give - Unconditional promises to give (pledges) are recognized as revenues in the period the promise is received and 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 depend are substantially met. Unconditional promises to give 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 recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in support from contributions. The Clubs have approximately \$4.3 million in conditional pledges relating to the capital campaign that have not been recognized in the accompanying consolidated financial statements as the underlying conditions have not been substantially met.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2008
(with comparative totals for the year ended August 31, 2007)

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

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 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 2008 or 2007.

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

Assets whose use is limited - Pursuant to the terms of the loan agreement described in Note 8, proceeds from the loan have been deposited into a project fund. Amounts deposited in the project fund will be used to fund the construction of three new clubhouses. The Club follows SFAS No. 124 to account for their investments classified as assets whose use is limited. At August 31, 2008, the funds were invested in interest bearing cash management accounts.

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 values at the date of receipt. Donated services are recognized as contributions in accordance with SFAS No. 116 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 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>	<u>2008</u>	<u>2007</u>
Professional services	Various	\$ 25,609	\$ 184,505
Property and equipment	Program	295,035	105,163
Other	Various	328,307	204,698
		<u>\$ 648,951</u>	<u>\$ 494,366</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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2008
(with comparative totals for the year ended August 31, 2007)

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

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.

Recently issued accounting standards - In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this statement does not require new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. At this time, the Clubs have not yet evaluated the impact of adopting this standard.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* – including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 defines the financial instruments that can be measured using the fair value option. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. At this time the Clubs have not yet evaluated the impact of adopting this standard.

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The state of Arizona enacted a version of UPMIFA in June 2008. FSP 117-1 also requires additional disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. The administration of the Clubs will need to interpret the new relevant law and disclosure requirements.

(2) Receivables

Receivables consist of the following:

	<u>2008</u>	<u>2007</u>
United Way allocations	\$ 878,458	\$ 872,519
Grants and contracts	71,973	108,531
Unconditional promises to give	473,106	100,000
Dividend receivables	-	30,425
Program receivables	16,305	4,398
Event receivables	51,206	1,900
Other receivables	22,821	8,769
Total receivables	<u>\$ 1,513,869</u>	<u>\$ 1,126,542</u>

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, 2008 and 2007 are considered fully collectible by management and, accordingly, an allowance for doubtful accounts has not been provided.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2008
(with comparative totals for the year ended August 31, 2007)

(2) Receivables (continued)

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 of receivables due in less than one year as of August 31, 2008 and 2007.

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 estimated risk free interest rate at the measurement date.

(3) Capital campaign pledges receivable

During 2004, the Clubs began a capital campaign to raise funds for improvements to an expansion of their facilities. The capital campaign reached its goal of \$10,800,000 for the purpose of constructing three new clubhouses.

Capital campaign pledges receivable consist of the following:

	<u>2008</u>	<u>2007</u>
Receivable in less than one year	\$ 20,000	\$ 520,000
Receivable in two to five years	<u>60,000</u>	<u>380,000</u>
Total capital campaign pledges receivable	80,000	900,000
Discount to present value	<u>(6,042)</u>	<u>(30,754)</u>
Net capital campaign pledges receivable	<u>\$ 73,958</u>	<u>\$ 869,246</u>

The estimated cash flows for capital campaign pledges receivable were discounted over the collection period using a discount rate of 5.5%.

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 are considered by management to be fully collectible at August 31, 2008 and 2007 and, accordingly, an allowance for doubtful accounts has not been provided.

(4) Investments

The Clubs account for their 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. All other investments are reported at fair value. The fair values of investments are based on quoted market prices.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2008
(with comparative totals for the year ended August 31, 2007)

(4) Investments (continued)

Investments consist of:	2008	2007
Mutual funds	\$ 5,439,647	\$ 2,422,265
Certificates of Deposit	97,809	1,297,852
U.S. Government and corporate bonds	-	297,607
Mortgage backed securities	112,688	203,335
Money markets	78,148	99,460
Total investments	5,728,292	4,320,519
Less current portion	(78,148)	(627,410)
Noncurrent investments	5,650,304	3,693,109
Less investments restricted to investment in property and equipment	(5,466,702)	(3,021,303)
Noncurrent portion	\$ 183,442	\$ 671,806

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.

Subsequent to August 31, 2008, the investment markets experienced significant declines in values, followed by a long period of instability. The declines and fluctuations had a direct impact on the investment portfolio of the Clubs, as well as the Clubs' interest in the net assets of the Foundation. As of October 31, 2008, the Clubs have incurred \$1,303,998 of unrealized losses and \$2,174,507 of decreases in the interest in Foundation net assets due to the market declines.

(5) Property and equipment

Property and equipment consist of:	2008	2007
Cost and donated value:		
Land and land improvements	\$ 1,212,614	\$ 1,212,614
Buildings and improvements	14,017,714	13,593,305
Furniture and equipment	2,196,374	2,043,744
Construction in progress	4,602,844	180,597
Total cost and donated value	22,029,546	17,030,260
Accumulated depreciation	(8,898,542)	(7,956,660)
Property and equipment, net	\$ 13,131,004	\$ 9,073,600

Depreciation expense charged to operations was \$976,252 for 2008 and \$845,197 for 2007.

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

In conjunction with its capital campaign, the Clubs are building a new facility in Glendale, Arizona to replace their current facility that was in operation during the year. During the year, the Clubs entered into a tentative sales agreement with a third party to sell the existing Glendale facility for \$800,000 upon the Clubs vacating the existing facility. Currently, the third party has been unable to secure the City of Glendale use permits required to complete the sale. If the sale is completed it is expected to result in a gain for the Clubs.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2008
(with comparative totals for the year ended August 31, 2007)

(6) Deferred financing costs

Certain costs incurred in connection with the loan agreement described in Note 8 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 \$137,558 and \$19,651 at August 31, 2008 and 2007, respectively. Amortization expense totaled \$117,907 and \$19,651 for the years ended August 31, 2008 and 2007, respectively, and is included in interest expense on the accompanying consolidated statements of functional expenses.

(7) Cash surrender value of life insurance

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

(8) 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 principle 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 6 above, will be 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, and Gabel gymnasium. The principal balance of the notes is forgiven from the certificate of completion date (January 10, 2005, May 25, 2007, May 25, 2007, November 7, 2007, and April 1, 2008, 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, 2008 and 2007, \$389,347 and \$239,335 were outstanding under these notes, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2008
(with comparative totals for the year ended August 31, 2007)

(9) Board designated unrestricted assets

The board of directors has designated portions of the unrestricted net assets for various purposes, including the purchase of supplies, special projects, and operating reserves.

(10) Temporarily restricted net assets

Temporarily restricted net assets consist of:	2008	2007
Purpose restrictions:		
Capital campaign and facilities remodel	\$ 6,881,427	\$ 4,631,500
Operations	860,977	766,384
Scholarship fund	181,953	184,901
Time restrictions:		
United Way	878,458	872,519
Total temporarily restricted net assets	\$ 8,802,815	\$ 6,455,304

For the years 2003 through 2007, the Clubs had undertaken a major renovation project at one of its clubhouses. There were no major renovation projects in 2008. The Stewart Branch renovation was completed in December 2006, at a cost of \$1.6 million, with approximately \$855,000 expended during the year.

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.

(11) Permanently restricted net assets

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

(12) Operating leases

The Clubs have various operating leases for equipment, which expire through 2010. Minimum future rental payments under these noncancellable operating leases are as follows:

<u>Years Ending August 31,</u>	
2009	\$ 34,518
2010	1,590
Total minimum future rental payments	\$ 36,108

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 \$40,308 in 2008 and \$49,813 in 2007.

(13) Retirement plan

The Clubs have a non-contributory defined contribution pension plan for all employees who meet specified age and service requirements. The plan is administered by the Clubs. The Clubs make annual contributions in the amount of 10% of eligible salaries. Total pension expense was \$304,314 for 2008 and \$232,934 for 2007.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2008
(with comparative totals for the year ended August 31, 2007)

(14) Related party transactions

The Clubs received contributions from board of director members of approximately \$404,239 in 2008 and \$1,440,204 in 2007. Approximately \$203,067 of the amount received in 2008 and \$183,766 received in 2007 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 Clubs of America, of approximately \$202,548 in 2008 and \$216,121 in 2007.

The Clubs paid dues to their national affiliate, The Boys and Girls Clubs of America, of \$25,188 in 2008 and \$23,547 in 2007.

(15) 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. 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 \$8,469,503 and \$9,535,339 as of August 31, 2008 and 2007, respectively.

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

Investments consist of:	<u>2008</u>	<u>2007</u>
Total assets	\$ 8,945,603	\$ 9,535,339
Total liabilities	\$ 476,100	\$ -
Net assets		
Unrestricted net assets	\$ 5,576,427	\$ 6,721,814
Permanently restricted net assets	2,893,076	2,813,525
Total net assets	<u>\$ 8,469,503</u>	<u>\$ 9,535,339</u>
Total revenue (loss)	<u>\$ (521,219)</u>	<u>\$ 1,475,868</u>
Total expense	<u>\$ 544,617</u>	<u>\$ 518,223</u>

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 15 and 16 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 companies. 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
November 25, 2008

Mayer Hoffman McCann P.C.

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

August 31, 2008

ASSETS

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	Eliminations and Consolidations	Total
CURRENT ASSETS				
Cash	\$ 1,211,372	\$ 1,123,621	\$ -	\$ 2,334,993
Receivables	1,513,869	-	-	1,513,869
Investments	78,148	-	-	78,148
Other current assets	<u>135,685</u>	<u>-</u>	<u>-</u>	<u>135,685</u>
TOTAL CURRENT ASSETS	2,939,074	1,123,621	-	4,062,695
RECEIVABLE FROM SUBSIDIARY	922,273	-	(922,273)	-
INVESTMENTS	183,442	-	-	183,442
INVESTMENT IN SUBSIDIARY	445,550	-	(445,550)	-
PROPERTY AND EQUIPMENT, net	8,530,777	4,600,227	-	13,131,004
INTEREST IN FOUNDATION NET ASSETS	8,469,503	-	-	8,469,503
DEFERRED FINANCING COSTS, net	-	687,789	-	687,789
ASSETS WHOSE USE IS LIMITED	-	4,671,516	-	4,671,516
ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT				
Investments	5,466,702	-	-	5,466,702
Pledges receivable, net	73,958	-	-	73,958
Construction in progress	<u>-</u>	<u>1,340,767</u>	<u>-</u>	<u>1,340,767</u>
TOTAL ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT	5,540,660	1,340,767	-	6,881,427
CASH SURRENDER VALUE OF LIFE INSURANCE	<u>111,928</u>	<u>-</u>	<u>-</u>	<u>111,928</u>
TOTAL ASSETS	\$ 27,143,207	\$ 12,423,920	\$ (1,367,823)	\$ 38,199,304

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES				
Accounts payable	\$ 247,082	\$ 1,022,687	\$ -	\$ 1,269,769
Payable to Parent	-	922,273	(922,273)	-
Accrued expenses	383,831	-	-	383,831
Deferred revenues	4,139	-	-	4,139
Other current liabilities	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
TOTAL CURRENT LIABILITIES	637,552	1,944,960	(922,273)	1,660,239
LONG-TERM DEBT	<u>389,347</u>	<u>10,033,410</u>	<u>-</u>	<u>10,422,757</u>
TOTAL LIABILITIES	1,026,899	11,978,370	(922,273)	12,082,996
NET ASSETS				
Unrestricted:				
Undesignated	14,214,087	445,550	(445,550)	14,214,087
Board designated	<u>206,330</u>	<u>-</u>	<u>-</u>	<u>206,330</u>
Total unrestricted net assets	14,420,417	445,550	(445,550)	14,420,417
Temporarily restricted	8,802,815	-	-	8,802,815
Permanently restricted	<u>2,893,076</u>	<u>-</u>	<u>-</u>	<u>2,893,076</u>
TOTAL NET ASSETS	26,116,308	445,550	(445,550)	26,116,308
TOTAL LIABILITIES AND NET ASSETS	\$ 27,143,207	\$ 12,423,920	\$ (1,367,823)	\$ 38,199,304

See Notes to Consolidated Financial Statements

BOYS & GIRLS CLUBS OF METROPOLITAN PHOENIX, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended August 31, 2008

	Boys & Girls Clubs of Metropolitan Phoenix	BG Development, LLC	Eliminations and Consolidations	Total
SUPPORT AND REVENUES				
Contributions	\$ 4,546,534	\$ -	\$ -	\$ 4,546,534
United Way allocations	1,073,250	-	-	1,073,250
Governmental fees and grants	1,318,868	-	-	1,318,868
Program service fees	930,873	-	-	930,873
Change in interest in Foundation net assets	(1,065,836)	-	-	(1,065,836)
Donated materials and services	648,951	-	-	648,951
Investment income	409,856	179,696	-	589,552
Loss on sale or disposal of property and equipment	(18,939)	-	-	(18,939)
Net realized and unrealized losses	(868,634)	-	-	(868,634)
Income from subsidiary	89,310	-	(89,310)	-
Other	10,899	624,814	(624,814)	10,899
Total support and revenues before special events	<u>7,075,132</u>	<u>804,510</u>	<u>(714,124)</u>	<u>7,165,518</u>
Special events revenues	3,331,609	-	-	3,331,609
Less costs of direct donor benefits	(982,193)	-	-	(982,193)
Gross profit on special events	<u>2,349,416</u>	<u>-</u>	<u>-</u>	<u>2,349,416</u>
TOTAL SUPPORT AND REVENUES	<u>9,424,548</u>	<u>804,510</u>	<u>(714,124)</u>	<u>9,514,934</u>
EXPENSES				
Programs:				
Social adjustment, development and recreation	8,581,914	715,200	(624,814)	8,672,300
Supporting services:				
Management and general	383,723	-	-	383,723
Fundraising	1,193,105	-	-	1,193,105
TOTAL EXPENSES	<u>10,158,742</u>	<u>715,200</u>	<u>(624,814)</u>	<u>10,249,128</u>
CHANGE IN NET ASSETS	<u>(734,194)</u>	<u>89,310</u>	<u>(89,310)</u>	<u>(734,194)</u>
NET ASSETS, BEGINNING OF YEAR	<u>26,850,502</u>	<u>356,240</u>	<u>(356,240)</u>	<u>26,850,502</u>
NET ASSETS, END OF YEAR	<u>\$ 26,116,308</u>	<u>\$ 445,550</u>	<u>\$ (445,550)</u>	<u>\$ 26,116,308</u>

See Notes to Consolidated Financial Statements