

**BOYS & GIRLS CLUBS OF
GREATER SCOTTSDALE, INC.
AND
BOYS & GIRLS CLUBS OF GREATER
SCOTTSDALE FOUNDATION**

**COMBINED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

Year Ended June 30, 2010

**BOYS & GIRLS CLUBS OF
GREATER SCOTTSDALE, INC.
AND
BOYS & GIRLS CLUBS OF GREATER
SCOTTSDALE FOUNDATION**

**COMBINED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

Year Ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC. and
BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE FOUNDATION**

We have audited the accompanying combined statement of financial position of **Boys & Girls Clubs of Greater Scottsdale, Inc. and Boys & Girls Clubs of Greater Scottsdale Foundation** at June 30, 2010, and the related combined statements of activities, functional expenses and cash flows for the year then ended. These combined financial statements are the responsibility of the management of **Boys & Girls Clubs of Greater Scottsdale, Inc. and Boys & Girls Clubs of Greater Scottsdale Foundation**. Our responsibility is to express an opinion on these combined financial statements based on our audit. The prior year summarized comparative information has been derived from the 2009 combined financial statements and, in our report dated November 11, 2009, we expressed an unqualified opinion on those combined 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 combined financial statements referred to above present fairly, in all material respects, the financial position of **Boys & Girls Clubs of Greater Scottsdale, Inc. and Boys & Girls Clubs of Greater Scottsdale Foundation** at June 30, 2010, 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
April 7, 2011

Mayer Hoffman McCann P.C.

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
AND
BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE FOUNDATION**

COMBINED STATEMENT OF FINANCIAL POSITION

June 30, 2010
(with comparative totals at June 30, 2009)

	<u>2010</u>	<u>2009</u>
<u>A S S E T S</u>		
CURRENT ASSETS		
Cash	\$ 660,604	\$ 763,471
Receivables, net	744,492	978,732
Prepaid expenses	33,239	47,568
TOTAL CURRENT ASSETS	1,438,335	1,789,771
PLEDGES RECEIVABLE, net	364,504	597,928
INVESTMENTS	7,860,373	6,886,557
PROPERTY AND EQUIPMENT, net	13,807,361	11,497,222
ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT		
Investments	94,425	1,851,528
Pledges receivable, net	811,592	1,631,261
Construction in progress	33,336	467,947
TOTAL ASSETS	\$ 24,409,926	\$ 24,722,214
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 481,490	\$ 449,168
Deferred revenue	59,718	134,200
Other liabilities	18,728	-
TOTAL CURRENT LIABILITIES	559,936	583,368
NET ASSETS		
Unrestricted	21,827,809	18,611,090
Temporarily restricted	2,022,181	5,527,756
TOTAL NET ASSETS	23,849,990	24,138,846
TOTAL LIABILITIES AND NET ASSETS	\$ 24,409,926	\$ 24,722,214

See Notes to Combined Financial Statements

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
AND
BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE FOUNDATION**

COMBINED STATEMENT OF ACTIVITIES

Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2010</u>	<u>2009</u>
SUPPORT AND REVENUE				
Contributions	\$ 3,340,213	\$ 126,887	\$ 3,467,100	\$ 3,172,858
Capital campaign contributions	-	133,398	133,398	382,772
Loss on uncollectible pledges	-	(688,946)	(688,946)	(116,546)
Program service fees	3,585,853	-	3,585,853	3,580,030
Donated materials and facilities	467,803	-	467,803	385,553
United Way allocations	19,949	252,305	272,254	271,695
Investment income	213,295	-	213,295	239,404
Realized/unrealized gains (losses) on investments	642,232	-	642,232	(1,880,145)
Membership income	134,029	-	134,029	150,668
Thrift store revenue, net	159,257	-	159,257	126,907
Branch fundraising	109,846	-	109,846	91,065
Other	129,402	-	129,402	118,200
	<u>8,801,879</u>	<u>(176,356)</u>	<u>8,625,523</u>	<u>6,522,461</u>
Total support and revenue before special events and net assets released from restrictions				
Special events revenue	864,986	-	864,986	819,136
Less costs of direct donor benefits	(274,848)	-	(274,848)	(262,545)
Gross profit from special events	590,138	-	590,138	556,591
Net assets released from restrictions	3,329,219	(3,329,219)	-	-
TOTAL SUPPORT AND REVENUE	<u>12,721,236</u>	<u>(3,505,575)</u>	<u>9,215,661</u>	<u>7,079,052</u>
EXPENSES				
Comprehensive youth development	7,734,020	-	7,734,020	7,693,512
Management and general	863,672	-	863,672	853,104
Fundraising	906,825	-	906,825	842,596
TOTAL EXPENSES	<u>9,504,517</u>	<u>-</u>	<u>9,504,517</u>	<u>9,389,212</u>
CHANGE IN NET ASSETS	<u>3,216,719</u>	<u>(3,505,575)</u>	<u>(288,856)</u>	<u>(2,310,160)</u>
NET ASSETS, BEGINNING OF YEAR	<u>18,611,090</u>	<u>5,527,756</u>	<u>24,138,846</u>	<u>26,449,006</u>
NET ASSETS, END OF YEAR	<u>\$ 21,827,809</u>	<u>\$ 2,022,181</u>	<u>\$ 23,849,990</u>	<u>\$ 24,138,846</u>

See Notes to Combined Financial Statements

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
AND
BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE FOUNDATION**

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

	Program			Supporting Services		Totals	
	Comprehensive Youth Development	Management and General	Fundraising	2010	2009		
Salaries	\$ 3,908,279	\$ 399,893	\$ 449,595	\$ 4,757,767	\$ 4,701,293		
Employee benefits	400,099	79,170	51,368	530,637	512,732		
Payroll taxes	316,638	61,353	36,374	414,365	410,369		
Occupancy	1,045,967	61,172	77,803	1,184,942	1,221,361		
Program supplies	730,527	-	-	730,527	791,003		
Professional fees	146,191	73,417	35,513	255,121	298,592		
Travel and entertainment	238,413	6,424	6,639	251,476	206,500		
Meetings/conferences	23,420	20,804	1,248	45,472	38,616		
Printing and publication	8,878	4,308	155,054	168,240	75,512		
Service contract/leases	61,727	18,272	14,589	94,588	81,676		
Investment banking	-	90,371	-	90,371	94,631		
Scholarship assistance	43,165	-	-	43,165	43,325		
Supplies	32,675	13,633	7,055	53,363	54,219		
Awards and grants	28,592	-	1,041	29,633	50,183		
Donor relations	2,312	10,352	65,437	78,101	72,440		
National dues	27,053	-	-	27,053	20,859		
Postage and shipping	1,770	1,703	2,270	5,743	13,320		
Branch fundraising	6,641	-	-	6,641	9,956		
Membership dues	10,863	4,216	919	15,998	15,796		
Computer equipment	1,580	328	-	1,908	6,116		
Directors/officers insurance	-	9,288	-	9,288	10,445		
Other	70,077	1,314	90	71,481	49,331		
Total expenses before depreciation	7,104,867	856,018	904,995	8,865,880	8,778,275		
Depreciation	629,153	7,654	1,830	638,637	610,937		
TOTAL EXPENSES	\$ 7,734,020	\$ 863,672	\$ 906,825	\$ 9,504,517	\$ 9,389,212		

See Notes to Combined Financial Statements

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
AND
BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE FOUNDATION**

COMBINED STATEMENT OF CASH FLOWS

Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (288,856)	\$ (2,310,160)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	657,500	629,914
Realized/unrealized (gains) losses on investments	(642,232)	1,880,145
Contributions restricted to investment in property and equipment	(133,398)	(382,772)
Change in allowance for uncollectible pledges	(7,990)	(37,552)
Change in discount for pledges	(53,586)	(156,741)
Write off of capital campaign pledge receivable	457,869	20,000
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	529,240	600,996
Prepaid expenses	14,329	(25,184)
Increase (decrease) in:		
Accounts payable and accrued liabilities	32,322	204,636
Deferred revenue	(74,482)	(29,932)
Other liabilities	18,728	-
Net cash provided by operating activities	509,444	393,350
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,978,264)	(2,917,450)
Purchases of assets restricted to investment in property and equipment	(2,747,499)	(859,343)
Purchases of property and equipment	(2,967,639)	(101,954)
Proceeds from sales of investments	2,646,680	2,785,154
Proceeds from sales of assets restricted to investment in property and equipment	4,939,213	436,711
Net cash used in investing activities	(1,107,509)	(656,882)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections on contributions restricted to investment in property and equipment	495,198	527,500
NET CHANGE IN CASH	(102,867)	263,968
CASH, BEGINNING OF YEAR	763,471	499,503
CASH, END OF YEAR	\$ 660,604	\$ 763,471

See Notes to Combined Financial Statements

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
AND
BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE FOUNDATION**

NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

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

Nature of operations - *Boys & Girls Clubs of Greater Scottsdale, Inc.* (the "Clubs") is an Arizona corporation formed in June 1954 to promote the physical, mental and moral well-being of boys and girls by providing education, recreation and guidance. The Clubs operate several facilities in Scottsdale: the Virginia G. Piper Branch, the Rose Lane Branch, the Hartley and Ruth Barker Branch, the Thunderbirds Branch, the Vestar Branch in Phoenix, and the McKee Branch in Fountain Hills. The Clubs are also involved in the Red Mountain and Lehi facilities in conjunction with the Salt River Pima-Maricopa Indian tribe and the Hualapai facility in conjunction with the Hualapai tribal community. The Clubs serve approximately 15,000 boys and girls including approximately 7,500 in their after school and summer day camp programs. The Clubs also operate a thrift store in Scottsdale for fundraising purposes.

Boys & Girls Clubs of Greater Scottsdale Foundation (the "Foundation") was incorporated in January 1994 with the Clubs as the sole corporate member of the Foundation. The Foundation was organized to manage investment funds, with the income to be used for the benefit of the Clubs.

The significant accounting policies followed by the Clubs and Foundation (collectively referred to herein as the "Organization") are as follows:

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

Combined financial statements - The accompanying combined financial statements represent the combined accounts of the Clubs and Foundation. All significant interorganization transactions and accounts have been eliminated in combination.

Basis of presentation - The accompanying combined 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 and Foundation 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.

Prior year summarized information - The accompanying combined 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' and Foundation's combined financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Management's use of estimates - The preparation of combined 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 combined financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
AND
BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE FOUNDATION**

NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

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

Contributions - The Clubs and Foundation account for contributions in accordance with 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 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 or permanently restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions. Restricted support, where the restriction is met in the same period as the donation is made, is shown as an addition to unrestricted support.

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 pledge 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 pledge'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.

Financial instruments that potentially subject the Clubs and Foundation to concentrations of credit risk consist principally of pledges receivable. The Clubs and Foundation pledges receivable consist of single and multi-year pledges primarily from individuals and large corporations.

Program service fees - The Clubs record revenues from program service fees over the applicable membership period. The unearned portion of the program service fees is recorded as deferred revenue at June 30, 2010 and 2009 in the accompanying combined statement of financial position.

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 donor benefits are recorded as gross profit from special events in the accompanying combined statement of activities.

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
AND
BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE FOUNDATION**

NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

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

Donated materials and services - 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. Donated materials and services are reflected in the accompanying combined financial statements at their estimated fair values at the date of receipt. No amounts have been reflected in the combined 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' and Foundation's program services and fundraising campaigns. During 2010 and 2009, the Organization received the following donated items:

	<u>Used for</u>	<u>Amounts</u>	
		<u>2010</u>	<u>2009</u>
Leased land and facilities	Programs and Support	\$ 268,450	\$ 222,750
Supplies and other materials	Programs	199,353	162,803
Total donated materials and facilities		<u>\$ 467,803</u>	<u>\$ 385,553</u>

Functional allocation of expenses - Expenses are charged to Comprehensive Youth Development (Program), Management and General, and Fundraising categories based on direct expenditures incurred. Any expenditures not directly chargeable are allocated based on personnel activity.

Cash - Cash includes cash and, at times, cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Cash deposits at commercial banks are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC).

Receivables - Receivables are stated at the amount management expects to collect under the terms of the contract agreements. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual receivables. 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 receivables.

Investments - The Organization accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt and Equity Securities*. Under ASC 958-320, the Organization is required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair value is based on quoted market prices.

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 risks in the near term could materially affect account balances and the amounts reported in the accompanying combined financial statements.

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
AND
BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE FOUNDATION**

NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

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

Property, 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 the gift to the Organization. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. All acquisitions of property and equipment in excess of \$500 and all expenditures for repairs and maintenance that materially prolong the useful lives of assets are capitalized. Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Buildings and leasehold improvements	10 - 40 years
Furniture and equipment	3 - 10 years
Vehicles	5 years

Impairment of long-lived assets - The Organization accounts 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 during 2010 and 2009.

Assets restricted to investment in property and equipment - Assets restricted to investment in property and equipment, as described more fully in Note 2, consist of capital campaign pledges, investments, and construction in progress that are restricted by donors for building an additional club and improvements to other specific clubs.

Income tax status - The Clubs and Foundation qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, therefore, there is no provision for income taxes. In addition, the Clubs and Foundation qualify for the charitable contribution deduction under Section 170 of the Code and have been deemed not to be private foundations. Income determined to be unrelated business taxable income (UBTI) would be taxable.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), which was subsequently incorporated into FASB ASC 740. FIN 48 was originally effective for fiscal years beginning after December 15, 2006. In 2010, the Clubs and Foundation implemented the provisions FIN 48 that are included in FASB ASC 740. There was no impact on these combined financial statements as a result of the adoption of these provisions. The Clubs and Foundation 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 Club's and Foundation's federal Exempt Organization Business Income Tax Returns (Form 990) for 2007, 2008 and 2009 are subject to examination by the IRS, generally for the three years after they were filed.

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
AND
BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE FOUNDATION**

NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

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

Subsequent events - The Clubs and Foundation have evaluated subsequent events through April 7, 2011, which is the date the combined financial statements were available to be issued.

(2) Receivables

Current receivables consist of:

	2010	2009
Operating receivables	\$ 153,806	\$ 155,147
United Way receivable	252,305	262,818
Current pledges receivable	338,381	560,767
Total current receivables	\$ 744,492	\$ 978,732

Long-term pledges consist of:

	2010	2009
Pledges receivable due in 2-5 years, net of 5% discount of \$58,807 in 2010 and \$106,048 in 2009	\$ 391,193	\$ 613,952
Pledges receivable due in excess of 5 years, net of 5% discount of \$0 in 2010 and \$6,345 in 2009	-	18,655
Total long-term pledges	391,193	632,607
Allowance for uncollectible long-term pledges	(26,689)	(34,679)
Net long-term pledges	\$ 364,504	\$ 597,928

Pledges held as assets restricted to investment in property and equipment consist of:

	2010	2009
Pledges receivable due in less than one year	\$ 478,145	\$ 913,140
Pledges receivable due in 2-5 years, net of 5% discount of \$60,965 in 2010 and \$137,039 in 2009	389,035	742,961
Pledges receivable due in excess of 5 years, net of 5% discount of \$0 in 2010 and \$17,765 in 2009	-	52,235
Total pledges receivable	867,180	1,708,336
Allowance for uncollectible pledges	(55,588)	(77,075)
Net pledges receivable	\$ 811,592	\$ 1,631,261
Net receivables in total	\$ 1,920,588	\$ 3,207,921

Included in receivables are pledges due from Board members of \$1,177,728 and \$1,429,938 at June 30, 2010 and 2009, respectively.

Assets restricted to investment in property and equipment will allow the Clubs to expand services to an additional 4,000 young people, including 1,000 teens. Specific projects funded by this capital campaign included the construction of a new 27,000 square foot Boys & Girls Club with a Teen Center and two Teen Centers at existing Clubs; the expansion of technology, fine arts, and education programs; relocation and expansion of the Thrift Store; and construction of an Administrative & Training Center. Lastly, other funds raised during the capital campaign will aid in securing future operations by increasing the Clubs' endowment.

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
AND
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NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

(2) Receivables (continued)

During the year ended June 30, 2010, the construction of the Virginia G. Piper Administrative & Training Center was completed and the facility was placed into service. Accordingly, in fiscal 2010, approximately \$2,700,000 of assets restricted to investment in property and equipment were released from restriction related to the Administrative & Training Center. Construction in progress for the remaining projects totaled \$33,366 and \$467,947 at June 30, 2010 and 2009, respectively.

(3) Investments

Investments at fair value consist of:

	<u>2010</u>	<u>2009</u>
Common stock	\$ 2,082,285	\$ 2,734,642
Fixed income funds	2,437,196	-
Equity mutual funds	1,863,140	1,502,678
Cash equivalents	308,151	965,463
Emerging market funds	244,057	-
REIT funds	693,729	-
Money market funds	326,240	-
Corporate and municipal bonds	-	3,535,302
Total investments	<u>\$ 7,954,798</u>	<u>\$ 8,738,085</u>

Expenses relating to investment income, including custodial fees and investment advisory fees, of \$83,466 and \$94,631 for 2010 and 2009, respectively, were charged to operations.

(4) Property and equipment

Property and equipment consists of:

	<u>2010</u>	<u>2009</u>
Cost or donated value:		
Land	\$ 1,309,648	\$ 1,194,216
Buildings and leasehold improvements	15,731,563	13,136,817
Furniture and equipment	1,770,784	1,552,606
Vehicles	758,431	719,148
Total cost or donated value	19,570,426	16,602,787
Accumulated depreciation	(5,763,065)	(5,105,565)
Property and equipment, net	<u>\$ 13,807,361</u>	<u>\$ 11,497,222</u>

Depreciation expense charged to operations was \$657,500 and \$629,914 for 2010 and 2009, respectively, which included depreciation attributable to the thrift store of \$18,863 and \$18,977 for 2010 and 2009, respectively. Thrift store depreciation is included in thrift store revenue, net in the accompanying combined statement of activities.

(5) Notes payable

The Clubs had a line of credit with a bank with an available limit of \$300,000. The line of credit matured in January 2011 and interest was payable monthly at the prime rate (3.25% at June 30, 2010 and 2009). There were no amounts outstanding under the line of credit at June 30, 2010 or 2009. Subsequent to year end, management renewed this line of credit for an additional term maturing in January 2012.

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
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NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

(6) Unrestricted net assets

Unrestricted net assets consists of:	<u>2010</u>	<u>2009</u>
Undesignated	\$ 19,682,063	\$ 16,510,148
Board designated for long-term investments	2,000,000	2,000,000
Investment Committee designated for charitable gift annuity program	145,746	100,942
Total unrestricted net assets	<u>\$ 21,827,809</u>	<u>\$ 18,611,090</u>

The Investment Committee has developed a policy for the Foundation's new charitable gift annuity program whereby an initial \$100,000 was self-funded to help commence the program. Additional unrestricted annuities received are also designated by the Board to the annuity program.

The by-laws of the Foundation designate \$2,000,000 of the unrestricted net assets to be used as an endowment. The designated amount is only to be used for investment purposes, the income of which is for the benefit of the Clubs. The amount can be changed only by a two-thirds vote of the Board of Directors of the Foundation.

(7) Temporarily restricted net assets

Temporarily restricted net assets consists of:	<u>2010</u>	<u>2009</u>
Purpose restrictions:		
Capital campaign	\$ 939,353	\$ 3,950,736
Piper Football Field	32,950	32,950
Thunderbird darkroom	14,639	14,639
Families in need	17,560	-
Scholarship fund - Hope	47,416	47,416
Scholarship fund - Others	16,150	5,801
Programs - Other	185	6,019
Time restrictions:		
Long-term AFK pledges	378,245	760,051
United Way	252,305	262,818
Other long term pledges	323,378	417,826
Contributions received restricted to use in next fiscal year	-	29,500
Total temporarily restricted net assets	<u>\$ 2,022,181</u>	<u>\$ 5,527,756</u>

(8) Endowments

The Organization's endowment consists entirely of board designated funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In September 2008, the State of Arizona enacted ARS§10-11801 et seq Investments for Eleemosynary Purposes (IFEP). As the Organization does not currently have any donor-restricted endowment funds, the Act does not apply for the years ended June 30, 2010 and 2009.

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
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NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

(8) Endowments (continued)

In August 2008, the FASB issued FSP FAS 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*, (which was subsequently incorporated into FASB ASC 958-205). The Organization had no changes to its net asset classification as a result of adoption of this accounting pronouncement in the year ended June 30, 2009.

The Organization's annual appropriations are at the discretion of the Organization's Board of Directors unless specific instructions are provided by the endowment donors.

The changes in endowment net assets for the year ended June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Contributions	-	-	-	-
Investment return	212,000	-	-	212,000
Appropriation of assets for expenditure	<u>(212,000)</u>	<u>-</u>	<u>-</u>	<u>(212,000)</u>
Endowment net assets, end of year	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>

The changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Contributions	290,000	-	-	290,000
Investment loss	<u>(290,000)</u>	<u>-</u>	<u>-</u>	<u>(290,000)</u>
Endowment net assets, end of year	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that consists of equity-based investments, corporate and municipal bonds, and money market accounts.

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
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NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

(9) Operating leases

The Clubs lease property and certain office equipment under noncancelable operating leases expiring through 2015. The minimum future rental commitments under these noncancelable operating leases (which excludes the contributed value) are as follows:

<u>Years Ending June 30,</u>	
2011	\$ 79,882
2012	79,882
2013	63,896
2014	455
2015	455
Total minimum future rental payments	<u>\$ 224,570</u>

Certain leases do not contain renewal options; however, in the normal course of business, the Clubs will either renew the leases or seek new arrangements.

The Clubs also lease the land for the Virginia Piper, Barker and Thunderbird branches from the City of Scottsdale with an additional lease for the McKee branch from the Town of Fountain Hills. The leases require payments of \$1 each per year and expire in April 2038, June 2049, February 2052 and July 2022, respectively. The fair value of the leases is estimated to be \$268,450 and \$222,750 for 2010 and 2009, respectively, and is included as donated materials and facilities in the accompanying combined financial statements.

Total rental expense (excluding the contributed value of \$268,450 and \$222,750 for 2010 and 2009, respectively) under all leases with a term in excess of one month totaled \$98,915 for 2010 and \$161,366 for 2009.

(10) Pension plan

The Clubs have a defined contribution pension plan for all employees who meet specified age and service requirements. Under an affiliation agreement with the Boys & Girls Clubs of America, the plan is administered by JZA, Inc. The Clubs contribute 5% of actual compensation upon eligibility determined by the pension administrator. After six years, the participant is fully vested. Total pension expense was \$126,664 for 2010 and \$134,560 for 2009.

(11) Thrift store revenue

Thrift store revenue consists of:	<u>2010</u>	<u>2009</u>
Value of contributed items	\$ 267,216	\$ 247,335
Sales proceeds from contributed items	267,216	247,335
Cost of materials	(267,216)	(247,335)
Operating expenses	(107,959)	(120,428)
Thrift store revenue, net	<u>\$ 159,257</u>	<u>\$ 126,907</u>

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
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NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

(12) Contingencies

The Clubs are subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these matters will have a material adverse effect on the Clubs' financial position, results of operations or cash flows.

(13) Related party transactions

The Clubs received revenues from their national affiliate, The Boys and Girls Club of America, of approximately \$108,779 (including \$100,279 of federal funds passed through) in 2010 and \$137,978 (including \$42,966 of federal funds passed through) in 2009, which are included in contributions in the accompanying combined statement of activities.

The Clubs paid dues to their national affiliate, The Boys and Girls Club of America, of \$27,053 in 2010 and \$20,859 in 2009.

(14) 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. The statement 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 Organization's assets and liabilities subject to fair value measurement on a recurring basis by the above FASB ASC 820 categories as of June 30, 2010:

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Fixed income funds	\$ 2,437,196	\$ -	\$ -
US equity mutual funds	989,260	-	-
International equity mutual funds	873,880	-	-
Emerging market mutual funds	244,057	-	-
REIT funds	-	693,729	-
Money market funds	326,240	-	-
Common stocks	2,082,285	-	-

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
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NOTES TO COMBINED FINANCIAL STATEMENTS

Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

(14) Fair value measurements (continued)

The following table summarizes the valuation of the Foundation's assets and liabilities measured at fair value on a recurring basis by the above FASB ASC 820 categories as of June 30, 2009:

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Common stock	\$ 2,734,642	\$ -	\$ -
Equity mutual funds	1,502,678	-	-
Corporate and municipal bonds	3,535,302	-	-

The Organization currently has no other assets or liabilities subject to fair value measurement other than at initial recognition.



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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Boards of Directors of

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC. and
BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE FOUNDATION**

We have audited the combined financial statements of *Boys & Girls Clubs of Greater Scottsdale, Inc. and Boys & Girls Clubs of Greater Scottsdale Foundation* (collectively, the "Organization") as of and for the year ended June 30, 2010, and our report thereon dated April 7, 2011 appears on page 1. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining statement of financial position on page 18 and the combining statement of activities on page 19 are presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual companies, and not a required part of the combined financial statements. Accordingly, we do not express an opinion on the financial position or results of operations of the individual companies. The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. However, in our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Phoenix, Arizona
April 7, 2011

Mayer Hoffman McCann P.C.

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
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ADDITIONAL INFORMATION

June 30, 2010 and 2009

COMBINING STATEMENTS OF FINANCIAL POSITION

ASSETS

	2010				2009			
	Clubs	Foundation	Eliminating Entries	Combined Balances	Clubs	Foundation	Eliminating Entries	Combined Balances
CURRENT ASSETS								
Cash	\$ 660,604	\$ -	\$ -	\$ 660,604	\$ 763,471	\$ -	\$ -	\$ 763,471
Receivables, net	635,831	292,083	(183,422)	744,492	646,244	502,298	(169,810)	978,732
Prepaid expenses	33,239	-	-	33,239	47,568	-	-	47,568
TOTAL CURRENT ASSETS	1,329,674	292,083	(183,422)	1,438,335	1,457,283	502,298	(169,810)	1,789,771
PLEDGES RECEIVABLE, net	-	364,504	-	364,504	-	597,928	-	597,928
INVESTMENTS	360,497	7,499,876	-	7,860,373	342,782	6,543,775	-	6,886,557
PROPERTY AND EQUIPMENT, net	13,807,361	-	-	13,807,361	11,497,222	-	-	11,497,222
ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT								
Investments	-	94,425	-	94,425	-	1,851,528	-	1,851,528
Pledges receivable, net	-	811,592	-	811,592	-	1,631,261	-	1,631,261
Construction in progress	33,336	-	-	33,336	467,947	-	-	467,947
TOTAL ASSETS	\$ 15,530,868	\$ 9,062,480	\$ (183,422)	\$ 24,409,926	\$ 13,765,234	\$ 11,126,790	\$ (169,810)	\$ 24,722,214

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES								
Accounts payable and accrued liabilities	\$ 481,490	\$ 183,422	\$ (183,422)	\$ 481,490	\$ 449,168	\$ 169,810	\$ (169,810)	\$ 449,168
Deferred revenue	59,718	-	-	59,718	134,200	-	-	134,200
Other liabilities	-	18,728	-	18,728	-	-	-	-
TOTAL CURRENT LIABILITIES	541,208	202,150	(183,422)	559,936	583,368	169,810	(169,810)	583,368
NET ASSETS	14,989,660	8,860,330	-	23,849,990	13,181,866	10,956,980	-	24,138,846
TOTAL LIABILITIES AND NET ASSETS	\$ 15,530,868	\$ 9,062,480	\$ (183,422)	\$ 24,409,926	\$ 13,765,234	\$ 11,126,790	\$ (169,810)	\$ 24,722,214

See Independent Auditors' Report on Additional Information

**BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC.
AND
BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE FOUNDATION**

ADDITIONAL INFORMATION

Years Ended June 30, 2010 and 2009

COMBINING STATEMENTS OF ACTIVITIES

	2010			2009				
	Clubs	Foundation	Eliminating Entries	Combined Balances	Clubs	Foundation	Eliminating Entries	Combined Balances
SUPPORT AND REVENUE								
Contributions	\$ 5,734,576	\$ 708,642	\$ (2,976,118)	\$ 3,467,100	\$ 4,013,586	\$ 497,513	\$ (1,338,241)	\$ 3,172,858
Capital campaign contributions	-	133,398	-	133,398	-	382,772	-	382,772
Loss on uncollectible pledges	(16,452)	(672,494)	-	(688,946)	(40,388)	(76,158)	-	(116,546)
Program service fees	3,585,853	-	-	3,585,853	3,580,030	-	-	3,580,030
Donated materials and facilities	467,803	-	-	467,803	385,553	-	-	385,553
United Way allocations	272,254	-	-	272,254	271,695	-	-	271,695
Investment income	4,212	209,083	-	213,295	7,283	232,121	-	239,404
Realized/unrealized gains (losses) on investments	7,736	634,496	-	642,232	(7,834)	(1,872,311)	-	(1,880,145)
Membership income	134,029	-	-	134,029	150,668	-	-	150,668
Thrift store revenue, net	159,257	-	-	159,257	126,907	-	-	126,907
Branch fundraising	109,846	-	-	109,846	91,065	-	-	91,065
Other	129,402	-	-	129,402	118,200	-	-	118,200
Total support and revenue before special events	<u>10,588,516</u>	<u>1,013,125</u>	<u>(2,976,118)</u>	<u>8,625,523</u>	<u>8,696,765</u>	<u>(836,063)</u>	<u>(1,338,241)</u>	<u>6,522,461</u>
Special events revenue	864,986	-	-	864,986	819,136	-	-	819,136
Less costs of direct donor benefits	(274,848)	-	-	(274,848)	(262,545)	-	-	(262,545)
Gross profit from special events	<u>590,138</u>	<u>-</u>	<u>-</u>	<u>590,138</u>	<u>556,591</u>	<u>-</u>	<u>-</u>	<u>556,591</u>
TOTAL SUPPORT AND REVENUE	<u>11,178,654</u>	<u>1,013,125</u>	<u>(2,976,118)</u>	<u>9,215,661</u>	<u>9,253,356</u>	<u>(836,063)</u>	<u>(1,338,241)</u>	<u>7,079,052</u>
EXPENSES								
Comprehensive youth development	7,734,020	2,976,118	(2,976,118)	7,734,020	7,693,512	1,338,241	(1,338,241)	7,693,512
Management and general	762,404	101,268	-	863,672	782,163	70,941	-	853,104
Fundraising	874,436	32,389	-	906,825	769,212	73,384	-	842,596
TOTAL EXPENSES	<u>9,370,860</u>	<u>3,109,775</u>	<u>(2,976,118)</u>	<u>9,504,517</u>	<u>9,244,887</u>	<u>1,482,566</u>	<u>(1,338,241)</u>	<u>9,389,212</u>
CHANGE IN NET ASSETS	1,807,794	(2,096,650)	-	(288,856)	8,469	(2,318,629)	-	(2,310,160)
NET ASSETS, BEGINNING OF YEAR	<u>13,181,866</u>	<u>10,956,980</u>	<u>-</u>	<u>24,138,846</u>	<u>13,173,397</u>	<u>13,275,609</u>	<u>-</u>	<u>26,449,006</u>
NET ASSETS, END OF YEAR	<u>\$ 14,989,660</u>	<u>\$ 8,860,330</u>	<u>\$ -</u>	<u>\$ 23,849,990</u>	<u>\$ 13,181,866</u>	<u>\$ 10,956,980</u>	<u>\$ -</u>	<u>\$ 24,138,846</u>

See Independent Auditors' Report on Additional Information