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

COMBINED FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

Year Ended June 30, 2012

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

COMBINED FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

Year Ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

BOYS & GIRLS CLUBS OF GREATER SCOTTSDALE, INC. AND SUBSIDIARY 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 Subsidiary and Boys & Girls Clubs of Greater Scottsdale Foundation*** as of June 30, 2012, 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 Subsidiary 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 ***Boys & Girls Clubs of Greater Scottsdale, Inc. and Boys & Girls Clubs of Greater Scottsdale Foundation's*** 2011 combined financial statements and, in our report dated December 20, 2011, 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 2012 combined financial statements referred to above present fairly, in all material respects, the financial position of ***Boys & Girls Clubs of Greater Scottsdale, Inc. and Subsidiary*** **and *Boys & Girls Clubs of Greater Scottsdale Foundation*** as of June 30, 2012, 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.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
March 21, 2013

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

COMBINED STATEMENT OF FINANCIAL POSITION

June 30, 2012
(with comparative totals at June 30, 2011)

A S S E T S

	2012	2011
CURRENT ASSETS		
Cash	$ 1,238,722	$ 574,548
Receivables	705,865	1,021,783
Prepaid expenses	36,115	38,850
TOTAL CURRENT ASSETS	1,980,702	1,635,181
PLEDGES RECEIVABLE, net	77,818	228,877
INVESTMENTS	8,934,529	8,594,497
SPLIT INTEREST AGREEMENTS	432,004	203,564
PROPERTY AND EQUIPMENT, net	13,654,604	14,008,452
ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT		
Investments	197,729	-
Pledges receivable, net	390,702	538,236
TOTAL ASSETS	$ 25,668,088	$ 25,208,807

L I A B I L I T I E S A N D N E T A S S E T S

	2012	2011
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 615,226	$ 597,792
Deferred revenue	102,335	85,302
Other liabilities	32,500	-
Capital lease obligation, current portion	19,772	-
Present value of annuity payments, current portion	15,554	4,790
TOTAL CURRENT LIABILITIES	785,387	687,884
CAPITAL LEASE OBLIGATION, net of current portion	140,658	-
PRESENT VALUE OF ANNUITY PAYMENTS, net of current portion	96,167	28,859
TOTAL LIABILITIES	1,022,212	716,743
NET ASSETS		
Unrestricted	23,211,511	22,719,565
Temporarily restricted	1,434,365	1,772,499
TOTAL NET ASSETS	24,645,876	24,492,064
TOTAL LIABILITIES AND NET ASSETS	$ 25,668,088	$ 25,208,807

See Notes to Combined Financial Statements

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

COMBINED STATEMENT OF ACTIVITIES

Year Ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Totals 2012	Totals 2011
SUPPORT AND REVENUE				
Contributions	$ 4,133,396	$ 158,058	$ 4,291,454	$ 2,965,869
Capital campaign contributions	-	269,084	269,084	353,342
Loss on uncollectible pledges	-	(41,690)	(41,690)	(41,852)
Program service fees	3,425,250	-	3,425,250	3,495,710
Donated materials and facilities	149,412	-	149,412	159,462
United Way allocations	19,433	237,293	256,726	270,001
Investment income	207,718	-	207,718	244,859
Realized/unrealized gains (losses) on investments	(391,056)	-	(391,056)	1,420,285
Membership income	129,791	-	129,791	131,915
Thrift store revenue, net	133,992	-	133,992	163,130
Branch fundraising	95,725	-	95,725	89,208
Other	161,919	-	161,919	132,690
Total support and revenue before special events and net assets released from restrictions	8,065,580	622,745	8,688,325	9,384,619
Special events revenue	1,012,658	-	1,012,658	1,012,787
Less costs of direct donor benefits	(315,467)	-	(315,467)	(283,690)
Gross profit from special events	697,191	-	697,191	729,097
Net assets released from restrictions	960,879	(960,879)	-	-
TOTAL SUPPORT AND REVENUE	9,723,650	(338,134)	9,385,516	10,113,716
EXPENSES				
Comprehensive youth development	7,457,209	-	7,457,209	7,567,110
Management and general	894,167	-	894,167	932,393
Fundraising	880,328	-	880,328	972,139
TOTAL EXPENSES	9,231,704	-	9,231,704	9,471,642
CHANGE IN NET ASSETS	491,946	(338,134)	153,812	642,074
NET ASSETS, BEGINNING OF YEAR	22,719,565	1,772,499	24,492,064	23,849,990
NET ASSETS, END OF YEAR	$ 23,211,511	$ 1,434,365	$ 24,645,876	$ 24,492,064

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

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)

	Program	Supporting Services		Totals	
	Comprehensive Youth Development	Management and General	Fundraising	2012	2011
Salaries	$ 3,815,133	$ 414,669	$ 442,709	$ 4,672,511	$ 4,825,524
Employee benefits	407,992	78,703	54,782	541,477	570,049
Payroll taxes	327,146	71,515	39,467	438,128	425,498
Occupancy	828,882	63,471	34,008	926,361	906,917
Program supplies	691,481	-	-	691,481	759,354
Professional fees	220,113	83,810	44,905	348,828	339,835
Travel and entertainment	244,121	3,589	7,344	255,054	205,875
Meetings/conferences	18,214	11,515	9,289	39,018	23,077
Printing and publication	5,957	2,521	70,844	79,322	99,045
Service contract/leases	57,273	19,989	9,377	86,639	94,199
Investment banking	-	107,422	-	107,422	100,679
Scholarship assistance	37,500	-	-	37,500	34,500
Supplies	33,135	9,838	2,736	45,709	52,769
Awards and grants	23,975	1,891	2,604	28,470	27,496
Donor relations	1,651	1,691	75,078	78,420	75,388
National dues	25,046	-	-	25,046	24,597
Postage and shipping	3,335	2,355	2,407	8,097	11,581
Branch fundraising	19,388	-	-	19,388	11,937
Membership dues	6,000	-	-	6,000	10,156
Computer equipment	-	-	-	-	998
Directors/officers insurance	-	10,045	-	10,045	9,300
Fundraising events	-	-	80,319	80,319	131,057
Other	48,676	7,055	3,943	59,674	69,267
Total expenses before depreciation	6,815,018	890,079	879,812	8,584,909	8,809,098
Depreciation	642,191	4,088	516	646,795	662,544
TOTAL EXPENSES	$ 7,457,209	$ 894,167	$ 880,328	$ 9,231,704	$ 9,471,642

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

COMBINED STATEMENT OF CASH FLOWS

Year Ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 153,812	$ 642,074
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Loss on uncollectible pledges receivable	41,690	41,852
Change in discount for pledges	(40,961)	(27,893)
Depreciation	665,453	681,686
Realized gains on investments	(54,637)	(90,973)
Unrealized (gains) losses on investments	445,693	(1,329,312)
Contributions restricted to investment in property and equipment	(269,084)	(353,342)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	586,057	(115,624)
Prepaid expenses	2,735	(5,611)
Increase (decrease) in:		
Accounts payable and accrued liabilities	17,434	116,302
Deferred revenue	17,033	25,584
Other liabilities	32,500	14,921
Present value of annuity payments	78,072	-
Net cash provided by (used in) operating activities	1,675,797	(400,336)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(10,887,767)	(2,125,264)
Purchases of assets restricted to investment in property and equipment	-	(744,007)
Purchases of property and equipment	(151,175)	(882,777)
Proceeds from sales of investments	9,730,510	2,607,861
Proceeds from sales of assets restricted to investment in property and equipment	-	871,768
Net cash used in investing activities	(1,308,432)	(272,419)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections on contributions restricted to investment in property and equipment	296,809	586,699
NET CHANGE IN CASH	664,174	(86,056)
CASH, BEGINNING OF YEAR	574,548	660,604
CASH, END OF YEAR	$ 1,238,722	$ 574,548
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to property and equipment under capital lease obligation	$ 160,430	$ -

See Notes to Combined Financial Statements

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

Nature of operations - ***Boys & Girls Clubs of Greater Scottsdale, Inc. and Subsidiary*** (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. On December 22, 2011, the Clubs formed Boys & Girls Clubs of Greater Scottsdale Youth, LLC (the "Subsidiary"), with the Clubs as the sole member. Boys & Girls Clubs of Greater Scottsdale Youth, LLC was formed to hold certain club assets in order to qualify for the working poor tax credit. 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, its Subsidiary and Foundation (collectively referred to herein as the "Organization") are as follows:

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.

Principles of consolidation - The combining financial statements on pages 22 and 23 of the ***Boys & Girls Clubs of Greater Scottsdale, Inc. and Subsidiary*** include the accounts of the Clubs and its wholly owned subsidiary Boys & Girls Clubs of Greater Scottsdale Youth, LLC. All significant intercompany transactions and accounts have been eliminated in consolidation.

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, 2011, 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.

(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, 2012 and 2011 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.

(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 2012 and 2011, the Organization received the following donated items:

		Amounts	
	Used for	**2012**	**2011**
Supplies and other materials	Programs	$ 149,412	$ 159,462

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.

(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 2012 and 2011.

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, 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. Boys and Girls Clubs of Greater Scottsdale Youth, LLC is treated as a disregarded entity for income tax purposes, and accordingly, all income and expenses are passed through to the Clubs. Management does not believe the Clubs or Foundation have any UBTI for the year ended June 30, 2012.

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 Clubs’ and Foundation’s federal Exempt Organization Business Income Tax Returns (Form 990) for fiscal 2009, 2010 and 2011 are subject to examination by the IRS, generally for the three years after they were filed. As of the date of this report, the 2012 tax returns had not yet been filed.

Subsequent events - The Clubs and Foundation have evaluated subsequent events through March 21, 2013 which is the date the combined financial statements were available to be issued.

(2) Receivables

Receivables consist of:

Current receivables:	2012	2011
Operating receivables	$ 115,135	$ 166,874
United Way receivable	237,293	249,782
Current pledges receivable	353,437	605,127
Total current receivables	$ 705,865	$ 1,021,783

Long-term pledges:	2012	2011
Pledges receivable due in 2-5 years, net of 5% discount of $10,377 in 2012 and $30,914 in 2011	$ 89,623	$ 244,086
Total long-term pledges	89,623	244,086
Allowance for uncollectible long-term pledges	(11,805)	(15,209)
Net long-term pledges	$ 77,818	$ 228,877

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

	2012	2011
Pledges receivable due in less than one year	$ 271,916	$ 301,818
Pledges receivable due in 2-5 years, net of 5% discount of $13,946 in 2012 and $34,370 in 2011	136,054	265,630
Total pledges receivable	407,970	567,448
Allowance for uncollectible pledges	(17,268)	(29,212)
Net pledges receivable	$ 390,702	$ 538,236
Net receivables in total	$ 1,174,385	$ 1,788,896

Included in receivables are pledges due from Board members totaling $185,900 and $1,107,891 at June 30, 2012 and 2011, 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.

During the year ended June 30, 2011, the construction of the Virginia G. Piper Teen Center was completed and the facility was placed into service. Accordingly, in fiscal 2011, approximately $714,000 of assets restricted to investment in property and equipment were released from restriction related to the Teen Center. The general contractor on the Teen Center was a Board member's company and payments to the Board member's company totaled $572,522 for the year ended June 30, 2011.

(3) Investments

Investments consist of the following for the years ended June 30:

	2012	2011
Mutual funds:		
Intermediate duration – fixed income	$ 837,565	$ 1,818,103
International equities	1,178,778	1,081,358
Global real estate equities	311,137	968,094
Mid cap	381,458	-
Commodity	318,668	-
Large cap	807,903	-
Small cap	327,968	-
Other mutual funds that are less than 5% of total investments	-	629,871
Equities:		
Healthcare	238,732	-
Technology	299,525	-
Real estate	38,940	-
Consumer defensive	149,344	-
Industrials	237,348	-
Basic materials	83,058	-
Consumer growth	-	1,083,448
Capital equipment	-	816,774
Financial	197,560	522,990
Energy	143,221	442,396
Consumer cyclical	128,992	-
Other	7,729	-
Private company securities	1,208,147	-
Other equities that are less than 5% of total investments	-	1,148,030
Debt securities:		
Foreign corporations	81,919	-
Callable domestic corporations	564,192	-
Non-callable domestic corporations	223,252	-
Governmental-Federal Home Loan	778,081	-
Governmental-Other	419,889	-
Cash and cash equivalents – interest bearing	135,086	253,930
Money market funds	465,770	33,067
Total investments	9,564,262	8,798,061
Investments in split interest agreements	(432,004)	(203,564)
Investments	$ 9,132,258	$ 8,594,497

Expenses relating to investment income, including custodial fees and investment advisory fees, of $43,493 and $32,978 for 2012 and 2011, respectively, were charged to operations.

(4) Property and equipment

Property and equipment consists of:

	2012	2011
Cost or donated value:		
Land	$ 1,309,648	$ 1,309,648
Buildings and leasehold improvements	16,493,563	16,482,623
Furniture and equipment	2,041,817	1,902,501
Vehicles	758,431	758,431
Assets held under capital lease obligation	160,430	-
Construction in progress	919	-
Total cost or donated value	20,764,808	20,453,203
Accumulated depreciation	(7,110,204)	(6,444,751)
Property and equipment, net	$ 13,654,604	$ 14,008,452

Depreciation expense charged to operations was $665,453 and $681,686 for 2012 and 2011, respectively, which included depreciation attributable to the thrift store of $18,658 and $19,142 for 2012 and 2011, respectively. Thrift store depreciation is included in thrift store revenue, net in the accompanying combined statement of activities.

The Organization entered into a capital lease agreement for copiers on June 28, 2012. The cost of the assets under capital lease obligation was $160,430. Accumulated amortization on assets held under capital lease agreements totaled $0 at June 30, 2012.

(5) Split interest agreements

At June 30, 2012, the Clubs administered 7 charitable gift annuities. The assets contributed under the charitable gift annuities are carried at fair value. The gift annuities totaled $432,004 and $203,564 at June 30, 2012 and 2011, respectively, and are reported in investments in split interest agreements as identified in Note 3. Contribution revenues are recognized at the date the annuities are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. Present values are calculated using discount rates that reflect the fair value as determined at the time the annuities are established and range from 3.0% to 6.0%, and actuarial tables and guidelines used for calculating the available deduction for income tax purposes. The liabilities are adjusted for the accretion of the discount and other changes in the estimates of future benefits. The present value of the estimated annuity payments associated with the charitable gift annuities is $111,721 and $33,649 at June 30, 2012 and 2011, respectively.

(6) Note payable

The Clubs have a line of credit with a bank with an available limit of $300,000. The line of credit matured in January 2012 and was extended through January 2013. Interest is payable monthly at the bank prime rate (3.25% at June 30, 2012 and 2011), but not less than 5%. There were no amounts outstanding under the line of credit at June 30, 2012 or 2011. Subsequent to year end, the Clubs extended the line of credit through January 2014.

(7) Capital lease obligation

On June 28, 2012, the Organization entered into a noncancelable capital lease agreement for equipment, which expires in June 2017, with an effective interest rate of 22%. For the year ended June 30, 2012, the interest expense incurred for the capital lease was zero as the first payment called for in the agreement is not due until July 2012. The future minimum lease payments and capital lease obligations under these capital leases as of June 30, 2012 are as follows:

Years Ending June 30,	
2013	$ 53,220
2014	53,220
2015	53,220
2016	53,220
2017	53,220
Total minimum lease payments	266,100
Less: amount representing interest	(105,670)
Present value of net minimum lease payments	160,430
Less: current maturities of capital lease obligations	(19,772)
Non-current maturities of capital lease obligations	$ 140,658

(8) Unrestricted net assets

Unrestricted net assets consists of:	2012	2011
Undesignated	$ 20,891,228	$ 20,549,650
Board designated for long-term investments	2,000,000	2,000,000
Investment Committee designated for charitable gift annuity program	320,283	169,915
Total unrestricted net assets	$ 23,211,511	$ 22,719,565

During 2010, the Investment Committee 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.

(9) Temporarily restricted net assets

Temporarily restricted net assets consists of:	2012	2011
Purpose restrictions:		
Capital campaign	$ 588,431	$ 538,236
Piper Football Field	32,950	32,950
Thunderbird darkroom	14,639	14,639
Families in need	35,566	15,243
Scholarship fund - Hope	47,416	47,416
Scholarship fund - Others	23,250	24,750
Programs - Other	32,500	16,780
Time restrictions:		
AFK pledges	266,233	333,474
United Way	237,293	249,782
Other long term pledges	156,087	499,229
Total temporarily restricted net assets	$ 1,434,365	$ 1,772,499

(10) 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 Management of Charitable Funds Act (MCFA). As the Organization does not currently have any donor-restricted endowment funds, the Act does not apply for the years ended June 30, 2012 and 2011.

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, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 2,000,000	$ -	$ -	$ 2,000,000
Contributions	39,846	-	-	39,846
Interest and dividends	45,292	-	-	45,292
Net depreciation	(85,138)	-	-	(85,138)
Appropriation of assets for expenditure	-	-	-	-
Endowment net assets, end of year	$ 2,000,000	$ -	$ -	$ 2,000,000

(10) Endowments (continued)

The changes in endowment net assets for the year ended June 30, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 2,000,000	$ -	$ -	$ 2,000,000
Contributions	-	-	-	-
Interest and dividends	53,686	-	-	53,686
Net appreciation	313,314	-	-	313,314
Appropriation of assets for expenditure	(367,000)	-	-	(367,000)
Endowment net assets, end of year	$ 2,000,000	$ -	$ -	$ 2,000,000

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.

(11) 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:

Years Ending June 30,	
2013	$ 21,763
2014	21,763
2015	3,787
Total minimum future rental payments	$ 47,313

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.

Total rental expense under all leases with a term in excess of one month totaled $89,098 for 2012 and $94,199 for 2011.

(11) Operating leases (continued)

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. At inception of each agreement, the Clubs were required to construct new or refurbish existing buildings at the sole cost and expense of the Clubs. Upon termination of the lease, all property constructed or improvements made by the Clubs revert to each lessor at no cost to the lessor. The leases also included specific provisions granting the lessor access to and use of the constructed facilities at no cost to the lessor. The leases specifically contemplate the shared use of the facilities in exchange for the nominal cash rent payments. Based on the terms of the lease, the Clubs are required to perform annually under the agreement in an exchange of services (free rent for free use of rented space). The net value of the exchange is assessed at $0 for the years ended June 30, 2012 and 2011, respectively. Effectively, no value is ascribed to the exchange nor included in the accompanying combined financial statements.

(12) Pension and 401(k) plans

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 $140,423 for 2012 and $118,171 for 2011.

The Organization sponsors a 401(k) plan covering substantially all employees who have completed 12 months of service and are age twenty-one or older. The Organization matches employee contributions at a rate of 100 percent up to 2.5 percent of their pay. For the years ended June 30, 2012 and 2011, the Clubs and Foundation contributed $42,690 and $49,388, respectively, to the Plan.

(13) Thrift store revenue

Thrift store revenue consists of:	2012	2011
Value of contributed items	$ 247,301	$ 289,123
Sales proceeds from contributed items	247,301	289,123
Cost of materials	(247,301)	(289,123)
Operating expenses	(113,309)	(125,993)
Thrift store revenue, net	$ 133,992	$ 163,130

(14) 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.

(14) Contingencies (continued)

The Clubs and the City of Scottsdale (the "City") are in a dispute regarding certain capital improvement costs incurred by the City during 2009/2010 on a branch property leased by the Clubs from the City. The City is pursuing a reimbursement of a portion of the renovation costs totaling approximately $510,000 of which the Club is responsible for $384,300, citing the terms of the lease. The Clubs believe the City has breached the terms of the lease and as such do not believe they are required to provide the City with the requested funding. The Clubs and the City are currently in negotiations regarding this dispute and there is a possibility that the Clubs may be required to provide some funding to settle this dispute, however, such amounts cannot be estimated as of the date of this report. The total estimated range of possible loss related to this dispute is from approximately $0 to $384,300. The Clubs have not recorded any liability in the accompanying combined financial statements related to this dispute.

(15) Related party transactions

The Clubs received revenues from their national affiliate, The Boys and Girls Club of America, of approximately $149,765 (including $77,344 of federal funds passed through) in 2012 and $182,034 (including $131,834 of federal funds passed through) in 2011, 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 $25,046 in 2012 and $24,596 in 2011.

(16) Fair value measurements

FASB ASC 820, *Fair Value Measurements*, 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. Assets reported at net asset value (NAV) using the practical expedient provisions are generally considered level 2 when the Clubs have the ability to redeem its investment at NAV or its equivalent at the measurement date or within a reasonably short period of time subsequent to the measurement date.

Level 3: Unobservable inputs for the asset or liability. Assets reported at NAV using the practical expedient provisions are generally considered level 3 when the investments will never have the ability to be redeemed at NAV or the redemption period is long-term in nature.

(16) Fair value measurements (continued)

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, 2012:

	Level 1	Level 2	Level 3
Mutual funds:			
Intermediate duration – fixed income	$ 837,565	$ -	$ -
International equities	1,178,778	-	-
Global real estate equities	311,137	-	-
Mid cap	381,458	-	-
Commodity	318,668	-	-
Large cap	807,903	-	-
Small cap	327,968	-	-
Equities:			
Healthcare	238,732	-	-
Technology	299,525	-	-
Real estate	38,940	-	-
Consumer defensive	149,344	-	-
Industrials	237,348	-	-
Basic materials	83,058	-	-
Financial	197,560	-	-
Energy	143,221	-	-
Consumer cyclical	128,992	-	-
Other	7,729	-	-
Private company securities	-	1,208,147	-
Debt securities:			
Foreign corporations	-	81,919	-
Callable domestic corporations	-	564,192	-
Non-callable domestic corporations	-	223,252	-
Governmental-Federal Home Loan	-	778,081	-
Governmental-Other	-	419,889	-
Money market funds	465,770	-	-
Investments	$ 6,153,696	$ 3,275,480	$ -

(16) Fair value measurements (continued)

During 2012, the Organization adopted additional provisions of FASB ASC 820 related to an investment whose fair value is reported at the net asset value ("NAV") of the investment. In accordance with FASB ASC 820, the Organization is required to disclose the nature and risks of the investment reported at NAV. The following table summarizes the nature and risk of the investment as of June 30, 2012:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited liability company interest	$ 747,715	$ -	Daily	1 day
Limited partnership interest	460,432	-	Monthly	15 days
Total	$ 1,208,147	$ -		

The investment in the limited liability company interest was made in November 2011, and the value is based on the NAV of the limited liability company as calculated by the daily trading value of the underlying securities or as determined by the Board of Trustees if a daily trading value is not available. The investment strategy of this investment is to seek capital appreciation by allocating the assets among a select group of private investment funds (commonly known as hedge funds) ("Portfolio Funds") that utilize a variety of alternative investment strategies that seek to produce an attractive absolute return on invested capital, largely independent of the various benchmarks associated with traditional asset classes. The limited liability company allows for daily redemptions with a 1 day notice. There are no noted restrictions on redemptions.

The investment in the limited partnership interest was made in February 2012, and the value is based on the NAV of the limited partnership as reported by the general partner. The investment strategy of the limited partnership seeks to achieve a total return in excess of the comparable return of the Merrill Lynch High Yield Master II Index through investments in primarily non-investment grade bonds of corporate entities that First Western Capital Management Company, a Colorado corporation ("First Western") and the Partnership's general partner (the "General Partner"), believes have satisfactory fundamentals with strong industry economic trends or are within weak economic sectors that appear to have reasonably sound or improving credit characteristics. The General Partner may authorize Distributions to Partners at such times and in such amounts as the General Partner may in its discretion determine. In addition, upon giving 15 days' advance written notice to the General Partner, a Limited Partner may withdraw any portion (but less than all) of his Capital Account (excluding such Partner's allocable share of any unrealized gains and/or other unrealized appreciation), effective as of the last day of any calendar month. The General Partner may withhold from any distribution to a withdrawing Limited Partner a reserve to pay for contingent liabilities arising from events occurring during the period of time in which a withdrawing Limited Partner is a Partner in the Partnership, which reserve, or any remaining balance thereof, shall be paid to such withdrawing Limited Partner without interest upon the General Partner's determination that such reserve (or such remaining balance) is no longer required. No distribution shall be made that would have the effect of rendering the Partnership insolvent.

(16) Fair value measurements (continued)

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, 2011:

	Level 1	Level 2	Level 3
Mutual funds:			
Intermediate duration – fixed income	$ 1,818,103	$ -	$ -
International equities	1,081,358	-	-
Global real estate equities	968,094	-	-
Other mutual funds that are less than 5% of total investments	629,871	-	-
Equities:		-	-
Consumer growth	1,083,448	-	-
Capital equipment	816,774	-	-
Financial	522,990	-	-
Energy	442,396	-	-
Other equities that are less than 5% of total investments	1,148,030	-	-
Money market funds	33,067	-	-

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

We have audited the combined financial statements of ***Boys & Girls Clubs of Greater Scottsdale, Inc. and Subsidiary and Boys & Girls Clubs of Greater Scottsdale Foundation*** (collectively, the "Organization") as of and for the year ended June 30, 2012 and have issued our report thereon dated March 21, 2013, which contained an unqualified report on those combined financial statements. Our audit was performed for the purpose of forming an opinion on the combined financial statements as a whole. The combining statement of financial position on page 22 and the combining statement of activities on page 23 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 organizations, and are not a required part of the combined financial statements. Such 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. The 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 combined financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
March 21, 2013

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

ADDITIONAL INFORMATION

June 30, 2012 and 2011

COMBINING STATEMENTS OF FINANCIAL POSITION

	2012				2011			
	Clubs and Subsidiary	Foundation	Eliminating Entries	Combined Balances	Clubs	Foundation	Eliminating Entries	Combined Balances
A S S E T S								
CURRENT ASSETS								
Cash	$ 1,258,222	$ -	$ (19,500)	$ 1,238,722	$ 574,548	$ -	$ -	$ 574,548
Receivables, net	417,450	448,415	(160,000)	705,865	795,773	408,510	(182,500)	1,021,783
Prepaid expenses	36,115	-	-	36,115	38,850	-	-	38,850
TOTAL CURRENT ASSETS	1,711,787	448,415	(179,500)	1,980,702	1,409,171	408,510	(182,500)	1,635,181
PLEDGES RECEIVABLE, net	-	77,818	-	77,818	-	228,877	-	228,877
INVESTMENTS	57,712	8,857,317	19,500	8,934,529	49,027	8,545,470	-	8,594,497
SPLIT INTEREST AGREEMENTS	-	432,004	-	432,004	-	203,564	-	203,564
PROPERTY AND EQUIPMENT, net	13,653,458	1,146	-	13,654,604	14,007,306	1,146	-	14,008,452
ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT								
Investments	-	197,729	-	197,729	-	-	-	-
Pledges receivable, net	-	390,702	-	390,702	-	538,236	-	538,236
TOTAL ASSETS	$ 15,422,957	$ 10,405,131	(160,000)	$ 25,668,088	$ 15,465,504	$ 9,925,803	(182,500)	$ 25,208,807
L I A B I L I T I E S A N D N E T A S S E T S								
CURRENT LIABILITIES								
Accounts payable and accrued liabilities	$ 615,034	$ 192	$ -	$ 615,226	$ 597,792	$ 182,500	$ (182,500)	$ 597,792
Line of credit	160,000	-	(160,000)	-	-	-	-	-
Deferred revenue	102,335	-	-	102,335	85,302	-	-	85,302
Other liabilities	32,500	-	-	32,500	-	-	-	-
Capital lease obligation, current portion	19,772	-	-	19,772	-	-	-	-
Present value of annuity payments, current portion	-	15,554	-	15,554	-	4,790	-	4,790
TOTAL CURRENT LIABILITIES	929,641	15,746	(160,000)	785,387	683,094	187,290	(182,500)	687,884
CAPITAL LEASE OBLIGATION, net of current portion	140,658	-	-	140,658	-	-	-	-
PRESENT VALUE OF ANNUITY PAYMENTS, net of current portion	-	96,167	-	96,167	-	28,859	-	28,859
TOTAL LIABILITIES	1,070,299	111,913	(160,000)	1,022,212	683,094	216,149	(182,500)	716,743
NET ASSETS	14,352,658	10,293,218	-	24,645,876	14,782,410	9,709,654	-	24,492,064
TOTAL LIABILITIES AND NET ASSETS	$ 15,422,957	$ 10,405,131	(160,000)	$ 25,668,088	$ 15,465,504	$ 9,925,803	(182,500)	$ 25,208,807

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

ADDITIONAL INFORMATION

Years Ended June 30, 2012 and 2011

COMBINING STATEMENTS OF ACTIVITIES

	2012				2011			
	Clubs and Subsidiary	Foundation	Eliminating Entries	Combined Balances	Clubs	Foundation	Eliminating Entries	Combined Balances
SUPPORT AND REVENUE								
Contributions	$ 3,628,481	$ 1,400,973	$ (738,000)	$ 4,291,454	$ 3,725,030	$ 206,664	$ (965,825)	$ 2,965,869
Capital campaign contributions	-	269,084	-	269,084	200,000	153,342	-	353,342
Loss on uncollectible pledges	(27,003)	(14,687)	-	(41,690)	-	(41,852)	-	(41,852)
Program service fees	3,425,250	-	-	3,425,250	3,495,710	-	-	3,495,710
Donated materials and facilities	149,412	-	-	149,412	159,462	-	-	159,462
United Way allocations	256,726	-	-	256,726	270,001	-	-	270,001
Investment income	3,071	204,647	-	207,718	3,383	241,476	-	244,859
Realized/unrealized gains (losses) on investments	(317)	(390,739)	-	(391,056)	3,724	1,416,561	-	1,420,285
Membership income	129,791	-	-	129,791	131,915	-	-	131,915
Thrift store revenue, net	133,992	-	-	133,992	163,130	-	-	163,130
Branch fundraising	95,725	-	-	95,725	89,208	-	-	89,208
Other	161,919	-	-	161,919	132,690	-	-	132,690
Total support and revenue before special events	7,957,047	1,469,278	(738,000)	8,688,325	8,374,253	1,976,191	(965,825)	9,384,619
Special events revenue	1,012,658	-	-	1,012,658	1,012,787	-	-	1,012,787
Less costs of direct donor benefits	(315,467)	-	-	(315,467)	(283,690)	-	-	(283,690)
Gross profit from special events	697,191	-	-	697,191	729,097	-	-	729,097
TOTAL SUPPORT AND REVENUE	8,654,238	1,469,278	(738,000)	9,385,516	9,103,350	1,976,191	(965,825)	10,113,716
EXPENSES								
Comprehensive youth development	7,457,209	738,000	(738,000)	7,457,209	7,567,110	965,825	(965,825)	7,567,110
Management and general	775,928	118,239	-	894,167	813,317	119,076	-	932,393
Fundraising	850,853	29,475	-	880,328	930,173	41,966	-	972,139
TOTAL EXPENSES	9,083,990	885,714	(738,000)	9,231,704	9,310,600	1,126,867	(965,825)	9,471,642
CHANGE IN NET ASSETS	(429,752)	583,564	-	153,812	(207,250)	849,324	-	642,074
NET ASSETS, BEGINNING OF YEAR	14,782,410	9,709,654	-	24,492,064	14,989,660	8,860,330	-	23,849,990
NET ASSETS, END OF YEAR	$ 14,352,658	$ 10,293,218	$ -	$ 24,645,876	$ 14,782,410	$ 9,709,654	$ -	$ 24,492,064

See Independent Auditors' Report on Additional Information