

# The Boys and Girls Clubs of Boston, Inc.

Financial Report  
June 30, 2006

**McGladrey & Pullen**  
Certified Public Accountants

McGladrey & Pullen, LLP is a member firm of RSM International –  
an affiliation of separate and independent legal entities.

## Contents

---

Independent Auditors' Report	1
Financial Statements	
Statements of financial position	2
Statements of activities	3
Statements of functional expenses	4
Statements of cash flows	5
Notes to financial statements	6-15

---

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditors' Report

To the Board of Directors  
The Boys and Girls Clubs of Boston, Inc.  
Boston, Massachusetts

We have audited the accompanying balance sheet of The Boys and Girls Clubs of Boston, Inc. (the "Organization") as of June 30, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The Boys and Girls Clubs of Boston, Inc. for the year ended June 30, 2005 were audited by other auditors whose report, dated October 11, 2005, expressed an unqualified opinion on those statements.

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

As discussed in Note 15 to the financial statements, these financial statements include a correction of previously issued financial statements.

In our opinion, based on our audit and the reports of other auditors, the June 30, 2006 and 2005 financial statements referred to above present fairly, in all material respects, the financial position of The Boys and Girls Clubs of Boston, Inc. as of June 30, 2006 and 2005, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Burlington, Massachusetts  
September 6, 2006

The Boys and Girls Clubs of Boston, Inc.

Statements of Financial Position

June 30, 2006 and 2005

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Cash and cash equivalents	\$ 3,315,689	\$ 598,336
Short-term investments, at market (Note 7)	1,557,309	1,980,733
Reimbursable program grant expenditures	551,147	415,167
Prepaid expenses and other assets	100,014	167,191
Pledges receivable (Notes 3 and 12)	15,900,158	17,002,200
Long-term investments, at market value (Note 7)	13,542,224	8,249,816
Land, buildings and equipment, at cost, net of depreciation (Note 10)	24,208,136	20,388,105
<b>Total assets</b>	<b>\$ 59,174,677</b>	<b>\$ 48,801,548</b>
<b>Liabilities and Net Assets</b>		
Line of credit (Note 9)	\$ 1,085,000	\$ 1,075,000
Accounts payable - construction	2,044,858	218,800
Accounts payable - trade	258,586	232,303
Accrued expenses (Note 8)	456,493	855,672
Deferred revenue	83,558	160,783
<b>Total liabilities</b>	<b>3,928,495</b>	<b>2,542,558</b>
Net Assets		
Unrestricted (Note 15)		
Board designated	1,154,338	1,154,338
Plant fund	21,078,278	19,869,305
Operating	6,540,730	1,091,768
	<b>28,773,346</b>	<b>22,115,411</b>
Temporarily restricted (Notes 4 and 6)	16,653,663	16,335,032
Permanently restricted (Note 5)	9,819,173	7,808,547
<b>Total net assets</b>	<b>55,246,182</b>	<b>46,258,990</b>
<b>Total liabilities and net assets</b>	<b>\$ 59,174,677</b>	<b>\$ 48,801,548</b>

See Notes to Financial Statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Activities

Years Ended June 30, 2006 and 2005

	2006				2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains and Other Support</b>								
United Way contributions	\$ 1,152,244	\$ -	\$ -	\$ 1,152,244	\$ 1,080,460	\$ -	\$ -	\$ 1,080,460
Contributions and benefits (Note 1)	6,599,525	8,931,542	2,010,626	17,541,693	3,226,432	13,131,433	3,569,540	19,927,405
Grants from governmental agencies - Federal	748,768	-	-	748,768	1,040,537	-	-	1,040,537
Grants from governmental agencies - State	147,982	-	-	147,982	93,845	-	-	93,845
Investment Income on long term investment designated by the Board for operations	310,550	-	-	310,550	239,485	-	-	239,485
Parent fees, vouchers, member dues, and camp fees	553,444	-	-	553,444	614,963	-	-	614,963
Gifts in-kind (Note 12)	124,446	-	-	124,446	260,881	-	-	260,881
Service and other income	373,059	-	-	373,059	378,155	-	-	378,155
Net assets released from restrictions (Note 6)	4,927,157	(4,927,157)	-	-	4,335,425	(4,335,425)	-	-
<b>Total revenues, gains and other support</b>	<b>14,937,175</b>	<b>4,004,385</b>	<b>2,010,626</b>	<b>20,952,186</b>	<b>11,270,183</b>	<b>8,796,008</b>	<b>3,569,540</b>	<b>23,635,731</b>
<b>Expenses</b>								
Program Services	8,135,384	-	-	8,135,384	8,032,582	-	-	8,032,582
Management and general	1,321,518	-	-	1,321,518	1,247,078	-	-	1,247,078
Fundraising	2,244,244	-	-	2,244,244	1,943,403	-	-	1,943,403
<b>Total operating expenses</b>	<b>11,701,146</b>	<b>-</b>	<b>-</b>	<b>11,701,146</b>	<b>11,223,063</b>	<b>-</b>	<b>-</b>	<b>11,223,063</b>
<b>Income from operations before depreciation</b>	<b>3,236,029</b>	<b>4,004,385</b>	<b>2,010,626</b>	<b>9,251,040</b>	<b>47,120</b>	<b>8,796,008</b>	<b>3,569,540</b>	<b>12,412,668</b>
Depreciation expense (Note 15)	1,191,674	-	-	1,191,674	1,151,501	-	-	1,151,501
<b>Income (loss) from operations</b>	<b>2,044,355</b>	<b>4,004,385</b>	<b>2,010,626</b>	<b>8,059,366</b>	<b>(1,104,381)</b>	<b>8,796,008</b>	<b>3,569,540</b>	<b>11,261,167</b>
<b>Non-operating activities</b>								
Net assets released from restriction (capital expenditures) (Note 6)	4,254,127	(4,254,127)	-	-	285,402	(285,402)	-	-
Investment income on long term investment designated by the Board for operations	(310,550)	-	-	(310,550)	(239,485)	-	-	(239,485)
Interest and dividend income	187,046	52,135	-	239,181	135,286	13,245	-	148,531
Investment expense	(59,449)	-	-	(59,449)	(26,061)	-	-	(26,061)
Net realized gains (losses) on investments	129,498	76,428	-	205,926	8,416	(11,070)	-	(2,654)
Net unrealized gains (losses) on investments	(14,628)	439,810	-	425,182	84,783	364,541	-	449,324
Comprehensive campaign expenses	(74,065)	-	-	(74,065)	(72,139)	-	-	(72,139)
Pension settlement expense (Note 8)	-	-	-	-	(314,144)	-	-	(314,144)
Additional minimum liability on pension (Note 8)	501,601	-	-	501,601	(139,939)	-	-	(139,939)
Transfer of net assets from discontinued operations (Note 14)	-	-	-	-	(1,053,981)	(618,224)	-	(1,672,205)
<b>Non-operating gains (losses)</b>	<b>4,613,580</b>	<b>(3,685,754)</b>	<b>-</b>	<b>927,826</b>	<b>(1,331,862)</b>	<b>(536,910)</b>	<b>-</b>	<b>(1,868,772)</b>
<b>Change in net assets</b>	<b>6,657,935</b>	<b>318,631</b>	<b>2,010,626</b>	<b>8,987,192</b>	<b>(2,436,243)</b>	<b>8,259,098</b>	<b>3,569,540</b>	<b>9,392,395</b>
Net Assets - Beginning of Year, as restated (Note 15)	22,115,411	16,335,032	7,808,547	46,258,990	24,551,654	8,075,934	4,239,007	36,866,595
<b>Net Assets - End of Year</b>	<b>\$ 28,773,346</b>	<b>\$ 16,653,663</b>	<b>\$ 9,819,173</b>	<b>\$ 55,246,182</b>	<b>\$ 22,115,411</b>	<b>\$ 16,335,032</b>	<b>\$ 7,808,547</b>	<b>\$ 46,258,990</b>

See Notes to Financial Statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Functional Expenses  
Years Ended June 30, 2006 and 2005

	2006				2005			
	Salaries and Wages	Payroll Taxes and Fringe Benefits	Other Expenses	Total Operating Expenses	Salaries and Wages	Payroll Taxes and Fringe Benefits	Other Expenses	Total Operating Expenses
Programs (Direct Expenses)								
Arts	\$ 223,622	\$ 54,783	\$ 26,906	\$ 305,311	\$ 230,953	\$ 55,088	\$ 27,660	\$ 313,701
Education	220,352	53,622	108,110	382,084	265,299	63,031	172,969	501,299
Leadership and character development	107,516	27,008	65,999	200,523	137,357	32,871	78,806	249,034
Life skills	583,676	140,726	37,321	761,723	461,318	109,936	53,114	624,368
Sports, fitness, recreation	506,237	122,943	44,688	673,868	525,593	127,090	72,913	725,596
Technology	233,266	56,142	167,670	457,078	231,102	54,756	182,625	468,483
Summer programs	178,417	44,119	113,915	336,451	141,758	34,123	97,303	273,184
School age child care	167,978	41,212	61,532	270,722	196,632	46,825	80,551	324,008
Member services	245,500	60,466	91,951	397,917	237,851	57,015	99,905	394,771
Youth Service Providers Network	574,541	136,923	108,685	820,149	545,177	129,241	74,432	748,850
Community Learning Center - site extensions	307,374	73,168	42,341	422,883	243,381	58,480	17,090	318,951
Programs (Support Expenses)								
Facility maintenance, insurance and utilities	205,184	53,421	1,102,564	1,361,169	267,812	63,961	1,128,719	1,460,492
Program management and administration	759,939	185,590	222,979	1,168,508	734,911	174,261	220,536	1,129,708
Program development and staff support	336,895	78,565	161,538	576,998	245,180	59,564	195,393	500,137
Depreciation	-	-	1,157,256	1,157,256	-	-	1,127,517	1,127,517
<b>Total program expenses, including depreciation expense</b>	<b>4,650,497</b>	<b>1,128,688</b>	<b>3,513,455</b>	<b>9,292,640</b>	<b>4,464,324</b>	<b>1,066,242</b>	<b>3,629,533</b>	<b>9,160,099</b>
Management and General	488,434	118,863	714,221	1,321,518	513,914	98,455	634,709	1,247,078
Depreciation, Management and General	-	-	34,418	34,418	-	-	23,984	23,984
Fundraising	1,071,828	246,084	926,332	2,244,244	950,971	205,172	787,260	1,943,403
<b>Total operating expenses</b>	<b>\$ 6,210,759</b>	<b>\$ 1,493,635</b>	<b>\$ 5,188,426</b>	<b>\$ 12,892,820</b>	<b>\$ 5,929,209</b>	<b>\$ 1,369,869</b>	<b>\$ 5,075,486</b>	<b>\$ 12,374,564</b>

See Notes to Financial Statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Cash Flows

Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities		
Change in net assets	\$ 8,987,192	\$ 9,392,395
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	1,191,674	1,151,501
Discontinued operations	-	1,672,205
Net realized and unrealized gains on investments	(631,108)	(446,671)
Contributions received for long-term use	(2,141,159)	(2,711,582)
Changes in net assets and liabilities	-	
Pledges receivable	1,102,042	(9,110,328)
Reimbursable program grant expenditures	(135,980)	(224,600)
Prepaid expenses and other assets	67,177	6,082
Accounts payable - trade	26,283	(180,958)
Accrued expenses	(399,179)	361,966
Deferred revenue	(77,225)	21,826
<b>Total adjustments</b>	<b>(997,475)</b>	<b>(9,460,559)</b>
<b>Net cash provided by (used in) operating activities</b>	<b>7,989,717</b>	<b>(68,164)</b>
Cash Flows from Investing Activities		
Building improvements	(3,095,921)	(241,201)
Purchase of equipment	(89,726)	(144,289)
Proceeds from sale of investments	1,145,851	2,551,552
Purchase of investments	(5,383,727)	(5,145,625)
<b>Net cash used in investing activities</b>	<b>(7,423,523)</b>	<b>(2,979,563)</b>
Cash Flows from Financing Activities		
Net borrowings under line of credit	10,000	550,000
Contributions received for long-term use	2,141,159	2,711,582
Transfer of net assets from discontinued operations	-	110,454
<b>Net cash provided by financing activities</b>	<b>2,151,159</b>	<b>3,372,036</b>
Net Increase in Cash and Cash Equivalents	2,717,353	324,309
Cash and Cash Equivalents:		
Beginning of year	598,336	274,027
End of year	\$ 3,315,689	\$ 598,336
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid during the year for interest	\$ 72,004	\$ 87,536
Building improvements included in accounts payable	\$ 2,044,858	\$ 218,800

See Notes to Financial Statements.

Notes to Financial Statements

---

**Note 1. Summary of Significant Accounting Policies**

**Basis of Presentation:** The financial statements of the Boys and Girls Clubs of Boston, Inc. (the "Organization") have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

**Net Assets:** Net assets, revenues and realized and unrealized gains and losses on investments are classified based on the existence or absence of donor-imposed restrictions and legal restrictions imposed under Massachusetts state law. In accordance with these provisions, capital appreciation on donor permanently restricted assets is treated as temporarily restricted net assets until appropriated by the Board of Directors and spent.

Unrestricted net assets carry no donor-imposed restrictions but may be designated for specific purposes by the Organization.

Unrestricted net assets are summarized into three categories: Board designated, Plant fund, and Operating. Board designated unrestricted net assets are proceeds from events recognized as income in prior reporting periods for which the Board has designated specific use or control over such funds. Plant fund unrestricted net assets are equal to the book value, less accumulated depreciation and specifically related debt, if any, of all land, buildings and equipment. Other unrestricted net assets are reported as Operating unrestricted net assets.

Temporarily restricted net assets are subject to donor stipulations that expire by the passage of time or can be fulfilled or removed by actions pursuant to the stipulations or by state law. Temporarily restricted net assets consist principally of gifts and unconditional pledges receivable restricted by donors for specified program operating purposes or capital purposes.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of unrestricted revenues, expenses, and other changes in unrestricted net assets as net assets released from restrictions.

Permanently restricted net assets are subject to donor stipulations requiring that they be maintained in perpetuity, thereby restricting the use of principal. Usually, donor stipulations allow part or all of the income earned to be used currently for either specific or general operating purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

Periodically, the Organization may receive information from donors that results in a change in the net asset classification for the respective funds. These changes are recorded as redesignations in the statement of changes in net assets.

**Contributions:** Contributions received, including unconditional pledges, are recognized as revenue when donors' commitments are received and time restrictions, if any, are met. Pledges made and collected in the same reporting period are recorded when received in the appropriate net asset category.

Unconditional pledges payable in future periods are included in the financial statements as pledges receivable. Unconditional pledges receivable are recognized at the estimated net present value of such pledges, net of an allowance for uncollectible amounts. Conditional promises are recorded when donor stipulations are substantially met.

Notes to Financial Statements

---

**Note 1. Summary of Significant Accounting Policies (continued)**

**Contributions (continued):** The Organization reports contributions of land, building and equipment as unrestricted support, unless the donor places restrictions on their use. Contributions of cash or other assets used to acquire or construct long-lived assets are reported as unrestricted support to the extent the funds have been expended for the stipulated acquisition or construction, otherwise the contributions are reported as temporarily restricted support.

Included in Contributions and Benefits for the year ended June 30, 2006 is a one-time bequest received by the Organization in the amount of \$2,700,000.

**Investments:** Investments in marketable securities, primarily mutual funds, are stated at market value and are pooled for investment purposes. Unrealized and realized gains and losses on investments are computed based on the average cost of each security sold and are allocated between unrestricted and permanently restricted net assets based on the fair value of pooled investments applicable to the respective asset totals. Investments relating to temporarily restricted net assets are in separate accounts and are only invested in short-term securities.

Investments in nonmarketable investments (alternative investments) are generally carried at fair value determined by management, relying upon the information provided by external investment managers. These investments are not readily marketable. The estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed. Such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements. The Organization believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2006 and 2005.

Investment securities 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 possible that changes in values of investment securities could occur in the near term and such changes could materially affect investment balances and activity included in the financial statements as of June 30, 2006 and 2005.

Unless otherwise restricted by the donor or state law, investment income and net unrealized and realized gains are recorded as increases in unrestricted net assets. When a donor restriction exists, investment income and net unrealized and realized gains are allocated based on the total balance of pooled investments applicable to the respective asset totals.

Commonwealth of Massachusetts state law requires all unrealized and realized gains on permanently restricted net assets to be classified as temporarily restricted net assets subject to usage based upon the Organization's spending policy. During fiscal years 2006 and 2005, the board voted to transfer 7% of the accumulated appreciation on endowment assets to the unrestricted fund. These funds amounted to \$88,638 and \$98,045 for the years ended June 30, 2006 and 2005.

**Operating Activities:** Changes in unrestricted net assets are classified as either operating activities or non-operating activities. Non-operating activities include investment income (including interest and dividend income, realized and unrealized gains and losses on investments), funds released from temporarily restricted net assets to support capital spending, comprehensive campaign expenses and changes in additional minimum pension liabilities recorded. All other activities that are deemed by management to be ongoing, major and central to operations are reported as operating revenues and expenses. In addition, the Board of Directors of the Organization designates a portion of unrestricted investment income, based on spending guidelines of 4.5% of a three-year quarterly rolling average of the long-term investments balances, which amounted to \$310,550 and \$239,485 for the years ended June 30, 2006 and 2005, respectively, to be utilized for operations.

Notes to Financial Statements

---

**Note 1. Summary of Significant Accounting Policies (continued)**

**Cash and Cash Equivalents:** The Organization considers all highly liquid investments with a maturity of three months or less, when acquired, to be cash equivalents.

**Land, Buildings and Equipment:** Land, buildings and equipment are reported at cost at the date of acquisition or fair value at the date of donation in the case of a gift. Provisions for depreciation are computed on a straight-line basis. The following are the estimated useful lives:

Buildings and improvements	25-40 years
Equipment, furniture and fixtures	3-5 years

Expenditures for maintenance and repairs are charged to expense as incurred; betterments are capitalized. When assets are sold or retired, the related cost and accumulated depreciation are removed from the respective accounts, and any resulting gain or loss is credited or charged to operations.

Effective July 1, 2005, the Organization adopted FASB Interpretation 47 (FIN 47) "Accounting for Conditional Asset Retirement Obligations." This standard requires that a liability be recorded for the fair value of an asset retirement specific to certain legal environmental obligations such as asbestos and lead paint removal. The recording of a liability is required if the fair value of the obligation can be reasonably estimated. As of June 30, 2006, the Organization is unaware of any such obligations. The Organization will recognize a liability in the period in which they become aware of such liability and sufficient information is available to reasonably estimate its fair value.

**Deferred Revenue:** Receipts from the Organization's summer programs has been deferred and will be recorded as revenue when the programs are completed and the related expenses are incurred.

**Functional Allocation of Expenses:** The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among programs and supporting services benefited based on employee hours spent within a program or supporting service.

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates included in the financial statements.

**Reclassification:** Certain reclassifications have been made to the 2005 financial statements in order to conform to the 2006 presentation.

**Contingencies:** The Organization is subject to claims which have risen in the normal course of business. The likely outcome of these claims are unknown; accordingly no reserves have been made for the potential settlements of these claims.

**Note 2. Tax Status**

The Organization qualifies as a public charity under Internal Revenue Code Section 170(b)(1)(A)(vi), and has been determined by the Internal Revenue Service to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

---

**Note 3. Pledges Receivable**

Unconditional promises to give at June 30, 2006 and 2005 are expected to be realized in the following periods:

	<u>2006</u>	<u>2005</u>
In one year or less	\$ 5,562,122	\$ 5,867,722
Between one and five years	11,383,036	12,014,078
Greater than five years	<u>225,000</u>	<u>452,400</u>
	17,170,158	18,334,200
Less:		
Allowance for uncollectible pledges	173,000	185,000
Discount to present value	<u>1,097,000</u>	<u>1,147,000</u>
	<u>\$ 15,900,158</u>	<u>\$ 17,002,200</u>

**Note 4. Temporarily Restricted Net Assets**

Temporarily restricted net assets are available at June 30 for the following purposes:

	<u>2006</u>	<u>2005</u>
Teen programs	\$ 4,063	\$ 60,530
Technology programs	43,417	7,556
Education programs	355,926	353,372
Social worker programs	166,507	187,014
Other specific activities of the Organization	1,057,447	816,870
Scholarships	184,419	220,147
Comprehensive Campaign		
Annual Fund	12,351,826	11,164,559
Roxbury Facility Campaign	66,965	1,665,580
Blue Hill Facility Campaign	98,276	-
Chelsea Facility Campaign	86,702	60,925
Green Street Facility Campaign	219,416	207,380
Accumulated realized and unrealized net gains on permanently restricted net assets	<u>2,018,699</u>	<u>1,591,099</u>
	<u>\$ 16,653,663</u>	<u>\$ 16,335,032</u>

**Note 5. Permanently Restricted Net Assets**

Permanently restricted net assets at June 30 are restricted to investment in perpetuity, the income from which is expendable to support:

	<u>2006</u>	<u>2005</u>
Specific activities of the Organization	\$ 3,094,115	\$ 1,486,916
General activities of the Organization	<u>6,725,058</u>	<u>6,321,631</u>
	<u>\$ 9,819,173</u>	<u>\$ 7,808,547</u>

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

---

**Note 6. Net Assets Released from Restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions accomplished for the years ended June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Teen programs	\$ 126,512	\$ 99,980
Technology programs	25,359	41,079
Education programs	213,193	300,953
Social worker programs	170,000	160,089
Other specific activities of the Organization	636,979	605,539
Scholarships	58,762	62,638
Comprehensive Campaign		
Annual Fund	2,991,863	2,536,074
Roxbury Facility Campaign	4,424,746	256,527
Blue Hill Facility Campaign	131,400	-
Chelsea Facility Campaign	300,000	439,420
Green Street Facility Campaign	13,832	20,483
Accumulated realized and unrealized net gains and (losses) on permanently restricted net assets	<u>88,638</u>	<u>98,045</u>
	<u>\$ 9,181,284</u>	<u>\$ 4,620,827</u>

**Note 7. Investments**

Investments consisted of the following at June 30:

	<u>2006</u>	<u>2005</u>
	<u>Market Value</u>	<u>Market Value</u>
Short-term investments		
Cash and cash equivalents	\$ 1,557,309	\$ 1,980,733
Total short-term investments	<u>1,557,309</u>	<u>1,980,733</u>
Long-term investments		
Cash and cash equivalents	3,468,874	577,441
Fixed income	2,311,481	1,907,622
Equity	5,208,324	3,701,332
Alternative investments	2,553,545	2,063,421
Total long-term investments	<u>13,542,224</u>	<u>8,249,816</u>
Total investments	<u>\$ 15,099,533</u>	<u>\$ 10,230,549</u>

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

---

**Note 8. Pension Plan**

The Organization has a defined benefit pension plan covering substantially all employees. Plan benefits are based on years of service and average annual earnings. Plan assets are principally invested in mutual funds. The Organization's policy is to fund pension costs as accrued. The following sets forth information with respect to these benefits at the measurement dates of June 30, 2006 and 2005 and for the years then ended:

	<u>2006</u>	<u>2005</u>
<b>Components of Net Periodic Benefit Cost</b>		
Service cost	\$ 278,559	\$ 207,466
Interest cost	129,081	128,676
Loss (return) on plan assets	(31,004)	9,107
Amortization of		
Actuarial loss	125,478	100,646
Deferred asset loss	(68,156)	(113,258)
Net periodic benefit cost	<u>\$ 433,958</u>	<u>\$ 332,637</u>
<b>Change in Benefit Obligation</b>		
Benefit obligation at beginning of year	\$ 2,426,389	\$ 2,146,386
Service cost	278,559	207,466
Interest cost	129,081	128,676
Actuarial loss (gain)	(522,025)	625,936
Impact of settlement accounting	-	(155,948)
Benefits paid	(92,806)	(526,127)
Benefit obligation at end of year	<u>\$ 2,219,198</u>	<u>\$ 2,426,389</u>
<b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year	\$ 1,047,452	\$ 1,113,337
Actual return on plan assets	31,004	(9,107)
Employer contribution	469,783	469,349
Benefits paid	(92,806)	(526,127)
Fair value of plan assets at end of year	<u>\$ 1,455,433</u>	<u>\$ 1,047,452</u>
Funded status	\$ (763,765)	\$ (1,378,937)
Unrecognized actuarial loss	886,289	1,465,636
Additional minimum liability	(341,380)	(842,981)
Net amount recognized	<u>\$ (218,856)</u>	<u>\$ (756,282)</u>
Accrued pension cost recognized as accrued expenses in the statement of financial position	<u>\$ (218,856)</u>	<u>\$ (756,282)</u>

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

---

**Note 8. Pension Plan (continued)**

During the year ended June 30, 2005, there was a significant increase in the level of lump-sum benefit payments in part due to the discontinued operations of Julie's Family Learning Program. In accordance with this, an additional non-operating expense of \$314,144 was recognized for the year ended June 30, 2005, as total lump-sum payments as \$520,071 exceeded the sum of service cost and interest cost for that year.

Future benefits expected to be paid by the Plan are as follows:

2007	\$	31,000
2008		45,000
2009		31,000
2010		31,000
2011-2015 (aggregate)		1,794,000

The assumptions used to determine the net periodic benefit cost and the benefit obligation as of June 30, 2006 and 2005 and for the years then ended are as follows:

	<u>2006</u>	<u>2005</u>
Used to determine net periodic benefit cost		
Discount rate	5.25%	6.25%
Rate of compensation increase	3.00%	3.00%
Expected long-term return on plan assets	7.50%	7.50%

	<u>2006</u>	<u>2005</u>
Used to determine benefit obligations		
Discount rate	6.25%	5.25%
Rate of compensation increase	3.00%	3.00%

The expected long-term rate of return on plan assets reflects the plan sponsor's estimate of future investment returns (expressed as an annual percentage), taking into account the allocation of plan assets among different investment classes and long-term expectations of future returns on each class.

The Plan's investments are allocated as follows at June 30:

	<u>2006</u>	<u>2005</u>
Equity securities	60%	61%
Debt securities	39%	39%
Cash equivalents	1%	0%
	<u>100%</u>	<u>100%</u>

The Organization expects to make contributions to the Plan of \$486,500 during the year ended June 30, 2007.

At June 30, 2006 and 2005, the Plan had an accumulated benefit obligation of \$1,674,289 and \$1,803,734, respectively, compared to plan assets of \$1,455,433 and \$1,047,452, respectively. Accordingly, an (increase) decrease to the additional minimum pension liability of \$501,601 and (\$139,939) was recorded during the years ended June 30, 2006 and 2005, respectively.

## The Boys and Girls Clubs of Boston, Inc.

### Notes to Financial Statements

---

#### Note 9. Lines of Credit

At June 30, 2006, the Organization may, at its option, borrow against three lines of credit, payable on demand.

Under the operating line of credit, interest is payable at the prime rate, 8.25% at June 30, 2006. The maximum amount available under the line of credit is \$4,000,000 and it expires on December 1, 2006, at which point all borrowings and accrued interest must be repaid or the expiration date extended at the option of the lender. The Organization had \$0 and \$775,000 outstanding under this line at June 30, 2006 and 2005.

Under the capital line of credit for Green Street, interest is payable based on LIBOR, 7.30% at June 30, 2006, plus two percent. The maximum amount available under the line of credit is \$3,000,000 and it expires on December 6, 2006, at which point the outstanding amount may be converted to a thirty-six month term loan, at the option of the Organization. The Organization had \$85,000 and \$300,000 outstanding under this line at June 30, 2006 and 2005.

Under the capital line of credit for Roxbury and Blue Hill, interest is payable at the prime rate, 8.25% at June 30, 2006. The maximum amount available under the line of credit is \$5,000,000 and it expires on July 8, 2007, at which point the outstanding amount may be converted to a thirty-six month term loan, at the option of the Organization. The Organization had \$1,000,000 outstanding under this line at June 30, 2006.

Under the terms of the agreements, if there are any borrowings, the most restrictive covenants require the Organization to maintain certain minimum financial ratios, including a debt service coverage of at least 1.10.

Interest expense was \$72,004 and \$87,536 for the years ended June 30, 2006 and 2005, respectively.

Subsequent to June 30, 2006, the Organization revised its agreements for the above credit facilities in order to lower the interest rates to prime minus 0.50% effective July, 2006.

#### Note 10. Land, Buildings and Equipment

	<u>2006</u>	<u>2005</u>
Land	\$ 160,324	\$ 160,324
Buildings and improvements	28,897,204	28,627,845
Construction in progress	4,932,022	279,402
Equipment, furniture and fixtures	<u>1,594,723</u>	<u>1,504,997</u>
	35,584,273	30,572,568
Less: accumulated depreciation	<u>11,376,137</u>	<u>10,184,463</u>
	<u>\$ 24,208,136</u>	<u>\$ 20,388,105</u>

Depreciation expense amounted to \$1,191,674 and \$1,151,501 for the years ended June 30, 2006 and 2005, respectively.

#### Note 11. Related Party Transactions

Certain members, or their affiliates, of the Organization's Board of Directors and Overseers provide various professional services, including among other areas, banking and health insurance, as well as office rental space, to the Organization. Directors disclose these relationships and abstain from any votes related to services that they may provide. Total payments under these arrangements were \$1,150,957 and \$308,132 for the years ended June 30, 2006 and 2005, respectively.

## The Boys and Girls Clubs of Boston, Inc.

### Notes to Financial Statements

---

#### Note 12. Contributed Gifts-in-Kind

The Organization receives and recognizes contributed gifts-in-kind from a variety of sources at fair value. Contributions made for activities have been recorded as operating income.

#### Note 13. Operating Leases

The Organization has a variety of operating leases for automobiles, equipment and a building. As of June 30, 2006 and 2005, the Organization paid \$310,224 and \$275,481, respectively.

The following is a schedule of minimum lease payments as of June 30, 2006 under these lease agreements:

<u>Years ending June 30,</u>	
2007	\$ 320,634
2008	251,257
2009	199,159
2010	195,327
2011	<u>190,392</u>
	<u>\$ 1,156,769</u>

#### Note 14. Discontinued Operations

Julie's Family Learning Program (JFLP), a program run and governed under the auspices of the Organization for more than twenty years, is a community-based family support and education program that is committed to the development of strong, healthy family functioning. The JFLP mission is to break the cycle of poverty among low-income, at-risk families by providing services that enable mothers and their children to become healthy, responsible, successful at life, and economically self-sufficient members of their communities.

During the year ended June 30, 2004, JFLP began the process of establishing itself as a separate, independent entity. A nonprofit corporation named Julie's Family Learning Center, Inc. ("JFLP, Inc.") was organized and was granted 501(c)(3) status by the IRS. Effective July 1, 2004, JFLP employees resigned their employment with BGCB and were retained by JFLP, Inc. Effective July 1, 2004, the following balance sheet items were transferred to JFLP, Inc. and have been reclassified as discontinued operations at June 30, 2004:

Assets	
Cash	\$ 109,954
Petty cash	500
Pledge receivable	537,845
Fixed assets	<u>1,053,981</u>
Total assets	<u>\$ 1,702,280</u>
Liabilities	
Due to BGCB	\$ 30,696
Equity	
Temporarily restricted net assets	617,603
Unrestricted net assets	<u>1,053,981</u>
Total equity and liabilities	<u>\$ 1,702,280</u>

## The Boys and Girls Clubs of Boston, Inc.

### Notes to Financial Statements

---

#### Note 14. Discontinued Operations (continued)

During the year ended June 30, 2004, JFLP had revenues of \$1,930,244 and expenses of \$917,514 resulting in net income of \$1,012,730, which was reclassified to discontinued operations in the financial statements.

On July 1, 2004, the Organization transferred unrestricted net assets and temporarily restricted net assets of \$1,053,981 and \$618,224, respectively, to JFLP. The transfer of temporarily restricted net assets to JFLP of \$618,224 includes June 30, 2004 net assets of \$617,603 and \$621 of interest income.

#### Note 15. Restatement of Net Assets

During the year ended June 30, 2006, the Organization determined that the net assets associated with a capital contribution related to a building were not recorded. The financial statements presented as of and for the year ended June 30, 2005 have been restated to properly reflect the activity (including 2005 depreciation). The restatement resulted in an increase in beginning net assets of \$1,050,000.

The following is a summary:

	As Previously Reported	Adjustment	As Restated
Unrestricted net assets at July 1, 2004	\$ 23,501,654	\$ 1,050,000	\$ 24,551,654
Change in unrestricted net assets for the year ended June 30, 2005	<u>(2,392,493)</u>	<u>(43,750)</u>	<u>(2,436,243)</u>
Unrestricted net assets at June 30, 2005	<u>\$ 21,109,161</u>	<u>\$ 1,006,250</u>	<u>\$ 22,115,411</u>