

# The Boys and Girls Clubs of Boston, Inc.

Financial Report  
June 30, 2007

**McGladrey & Pullen**  
Certified Public Accountants

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

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

We have audited the accompanying balance sheets of The Boys and Girls Clubs of Boston, Inc. (the "Organization") as of June 30, 2007 and 2006, and the related statements of activities, functional expenses and cash flows for the years 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 audits.

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 audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2007 and 2006, 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.

As described in Note 14 to the financial statements the Organization changed its method of accounting for its defined benefit pension plan in 2007 based on a change in accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Burlington, Massachusetts  
November 14, 2007

The Boys and Girls Clubs of Boston, Inc.

Statements of Financial Position

June 30, 2007 and 2006

| Assets  | 2007                 | 2006                 |
|---|----------------------|----------------------|
| Cash and cash equivalents                             | \$ 1,034,993         | \$ 3,315,689         |
| Short-term investments, at market value (Note 7)      | 2,690,157            | 1,557,309            |
| Reimbursable program grant expenditures               | 292,530              | 551,147              |
| Prepaid expenses and other assets                     | 118,849              | 100,014              |
| Pledges receivable (Notes 3 and 12)                   | 23,958,063           | 15,900,158           |
| Long-term investments, at market value (Note 7)       | 17,117,230           | 13,542,224           |
| Land, buildings and equipment, at cost, net (Note 10) | 30,024,143           | 24,208,136           |
| <b>Total assets</b>                                   | <b>\$ 75,235,965</b> | <b>\$ 59,174,677</b> |
| <b>Liabilities and Net Assets</b>                     |                      |                      |
| Line of credit (Note 9)                               | \$ 3,957,725         | \$ 1,085,000         |
| Accounts payable - construction                       | 810,650              | 2,044,858            |
| Accounts payable - trade                              | 314,734              | 258,586              |
| Accrued expenses (Notes 8 and 14)                     | 955,916              | 456,493              |
| Deferred revenue                                      | 129,687              | 83,558               |
| <b>Total liabilities</b>                              | <b>6,168,712</b>     | <b>3,928,495</b>     |
| Net Assets  |                      |                      |
| Unrestricted  |                      |                      |
| Board designated                                      | 1,154,338            | 1,154,338            |
| Plant fund  | 29,654,400           | 21,078,278           |
| Operating   | 2,423,822            | 6,540,730            |
|   | <b>33,232,560</b>    | <b>28,773,346</b>    |
| Temporarily restricted (Notes 4 and 6)                | 17,871,712           | 16,653,663           |
| Permanently restricted (Note 5)                       | 17,962,981           | 9,819,173            |
| <b>Total net assets</b>                               | <b>69,067,253</b>    | <b>55,246,182</b>    |
| <b>Total liabilities and net assets</b>               | <b>\$ 75,235,965</b> | <b>\$ 59,174,677</b> |

See Notes to Financial Statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Activities

Years Ended June 30, 2007 and 2006

|  | 2007              |                        |                        |                   | 2006              |                        |                        |                   |
|--|-------------------|------------------------|------------------------|-------------------|-------------------|------------------------|------------------------|-------------------|
|  | Unrestricted      | Temporarily Restricted | Permanently Restricted | Total             | Unrestricted      | Temporarily Restricted | Permanently Restricted | Total             |
| <b>Revenues, Gains and Other Support</b>   |                   |                        |                        |                   |                   |                        |                        |                   |
| United Way contributions   | \$ 1,088,754      |                        |                        | \$ 1,088,754      | \$ 1,152,244      | \$ -                   | \$ -                   | \$ 1,152,244      |
| Contributions and benefits   | 4,567,544         | 9,578,574              | 8,143,808              | 22,289,926        | 6,599,525         | 8,931,542              | 2,010,626              | 17,541,693        |
| Grants from governmental agencies - Federal                                      | 713,194           | -                      | -                      | 713,194           | 748,768           | -                      | -                      | 748,768           |
| Grants from governmental agencies - State and City                               | 361,759           | -                      | -                      | 361,759           | 147,982           | -                      | -                      | 147,982           |
| Investment Income on long-term investment designated by the Board for operations | 444,673           | -                      | -                      | 444,673           | 310,550           | -                      | -                      | 310,550           |
| Parent fees, vouchers, member dues, and club camp fees                           | 495,316           | -                      | -                      | 495,316           | 553,444           | -                      | -                      | 553,444           |
| Gifts-in-kind (Note 12)  | 803,631           | -                      | -                      | 803,631           | 569,516           | -                      | -                      | 569,516           |
| Service and other income   | 544,877           | -                      | -                      | 544,877           | 373,059           | -                      | -                      | 373,059           |
| Net assets released from restrictions (Note 6)                                   | 5,561,948         | (5,561,948)            | -                      | -                 | 4,927,157         | (4,927,157)            | -                      | -                 |
| <b>Total revenues, gains and other support</b>                                   | <b>14,581,696</b> | <b>4,016,626</b>       | <b>8,143,808</b>       | <b>26,742,130</b> | <b>15,382,245</b> | <b>4,004,385</b>       | <b>2,010,626</b>       | <b>21,397,256</b> |
| <b>Operating Expenses</b>  |                   |                        |                        |                   |                   |                        |                        |                   |
| Program Services   | 9,920,493         | -                      | -                      | 9,920,493         | 8,580,454         | -                      | -                      | 8,580,454         |
| Management and general   | 1,376,207         | -                      | -                      | 1,376,207         | 1,321,518         | -                      | -                      | 1,321,518         |
| Fundraising  | 2,300,700         | -                      | -                      | 2,300,700         | 2,244,244         | -                      | -                      | 2,244,244         |
| <b>Total operating expenses</b>  | <b>13,597,400</b> | <b>-</b>               | <b>-</b>               | <b>13,597,400</b> | <b>12,146,216</b> | <b>-</b>               | <b>-</b>               | <b>12,146,216</b> |
| <b>Income from operations before depreciation</b>                                | <b>984,296</b>    | <b>4,016,626</b>       | <b>8,143,808</b>       | <b>13,144,730</b> | <b>3,236,029</b>  | <b>4,004,385</b>       | <b>2,010,626</b>       | <b>9,251,040</b>  |
| Depreciation expense (Note 10)   | 1,397,138         | -                      | -                      | 1,397,138         | 1,191,674         | -                      | -                      | 1,191,674         |
| <b>Income from operations</b>  | <b>(412,842)</b>  | <b>4,016,626</b>       | <b>8,143,808</b>       | <b>11,747,592</b> | <b>2,044,355</b>  | <b>4,004,385</b>       | <b>2,010,626</b>       | <b>8,059,366</b>  |
| <b>Non-operating activities</b>  |                   |                        |                        |                   |                   |                        |                        |                   |
| Net assets released from restriction (capital expenditures) (Note 6)             | 4,275,048         | (4,275,048)            | -                      | -                 | 4,254,127         | (4,254,127)            | -                      | -                 |
| In-kind gift for renovation (Note 12)  | 797,000           | -                      | -                      | 797,000           | -                 | -                      | -                      | -                 |
| Investment income on long-term investment designated by the Board for operations | (444,673)         | -                      | -                      | (444,673)         | (310,550)         | -                      | -                      | (310,550)         |
| Interest and dividend income   | 313,743           | 52,953                 | -                      | 366,696           | 187,046           | 52,135                 | -                      | 239,181           |
| Investment expense   | (50,721)          | -                      | -                      | (50,721)          | (59,449)          | -                      | -                      | (59,449)          |
| Net realized gains on investments  | 508,749           | 176,808                | -                      | 685,557           | 129,498           | 76,428                 | -                      | 205,926           |
| Net unrealized gains (losses) on investments                                     | 244,870           | 1,246,710              | -                      | 1,491,580         | (14,628)          | 439,810                | -                      | 425,182           |
| Comprehensive campaign expenses  | (274,101)         | -                      | -                      | (274,101)         | (74,065)          | -                      | -                      | (74,065)          |
| Pension liability adjustment (Note 8)  | 47,050            | -                      | -                      | 47,050            | 501,601           | -                      | -                      | 501,601           |
| <b>Non-operating gains (losses)</b>  | <b>5,416,965</b>  | <b>(2,798,577)</b>     | <b>-</b>               | <b>2,618,388</b>  | <b>4,613,580</b>  | <b>(3,685,754)</b>     | <b>-</b>               | <b>927,826</b>    |
| <b>Change in accounting principle (Notes 8 and 14)</b>                           | <b>(544,909)</b>  | <b>-</b>               | <b>-</b>               | <b>(544,909)</b>  | <b>-</b>          | <b>-</b>               | <b>-</b>               | <b>-</b>          |
| <b>Change in net assets</b>  | <b>4,459,214</b>  | <b>1,218,049</b>       | <b>8,143,808</b>       | <b>13,821,071</b> | <b>6,657,935</b>  | <b>318,631</b>         | <b>2,010,626</b>       | <b>8,987,192</b>  |
| Net Assets - Beginning of Year   | 28,773,346        | 16,653,663             | 9,819,173              | 55,246,182        | 22,115,411        | 16,335,032             | 7,808,547              | 46,258,990        |
| Net Assets - End of Year   | \$ 33,232,560     | \$ 17,871,712          | \$ 17,962,981          | \$ 69,067,253     | \$ 28,773,346     | \$ 16,653,663          | \$ 9,819,173           | \$ 55,246,182     |

See Notes to Financial Statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Functional Expenses  
Years Ended June 30, 2007 and 2006

|   | 2007                     |   |                     |                                | 2006                     |   |                     |                                |
|---|--------------------------|---|---------------------|--------------------------------|--------------------------|---|---------------------|--------------------------------|
|   | Salaries<br>and<br>Wages | Payroll Taxes<br>and<br>Fringe Benefits | Other<br>Expenses   | Total<br>Operating<br>Expenses | Salaries<br>and<br>Wages | Payroll Taxes<br>and<br>Fringe Benefits | Other<br>Expenses   | Total<br>Operating<br>Expenses |
| Programs (Direct Expenses)  |                          |   |                     |                                |                          |   |                     |                                |
| Arts  | \$ 241,496               | \$ 50,132                               | \$ 61,263           | \$ 352,891                     | \$ 223,622               | \$ 54,783                               | \$ 26,906           | \$ 305,311                     |
| Education   | 245,034                  | 51,133                                  | 130,312             | 426,479                        | 220,352                  | 53,622                                  | 108,110             | 382,084                        |
| Leadership and character development                              | 92,315                   | 19,517                                  | 87,636              | 199,468                        | 107,516                  | 27,008                                  | 65,999              | 200,523                        |
| Life skills   | 683,413                  | 141,364                                 | 92,265              | 917,042                        | 583,676                  | 140,726                                 | 37,321              | 761,723                        |
| Sports, fitness, recreation                                       | 587,699                  | 121,809                                 | 71,814              | 781,322                        | 506,237                  | 122,943                                 | 44,688              | 673,868                        |
| Technology  | 244,486                  | 50,520                                  | 188,888             | 483,894                        | 233,266                  | 56,142                                  | 167,670             | 457,078                        |
| Summer programs   | 236,995                  | 49,196                                  | 133,376             | 419,567                        | 178,417                  | 44,119                                  | 113,915             | 336,451                        |
| School age child care   | 155,782                  | 32,321                                  | 56,913              | 245,016                        | 167,978                  | 41,212                                  | 61,532              | 270,722                        |
| Member services   | 244,602                  | 49,960                                  | 100,634             | 395,196                        | 245,500                  | 60,466                                  | 91,951              | 397,917                        |
| Youth Service Providers Network                                   | 606,380                  | 126,829                                 | 76,285              | 809,494                        | 574,541                  | 136,923                                 | 108,685             | 820,149                        |
| Shared space sites  | 416,760                  | 76,245                                  | 82,789              | 575,794                        | 307,374                  | 73,168                                  | 42,341              | 422,883                        |
| Programs (Support Expenses)                                       |                          |   |                     |                                |                          |   |                     |                                |
| Facility maintenance, insurance and utilities                     | 210,388                  | 52,850                                  | 1,625,355           | 1,888,593                      | 205,184                  | 53,421                                  | 1,102,564           | 1,361,169                      |
| Program management and administration                             | 823,040                  | 169,162                                 | 692,933             | 1,685,135                      | 759,939                  | 185,590                                 | 668,049             | 1,613,578                      |
| Program development and staff support                             | 381,767                  | 71,826                                  | 287,009             | 740,602                        | 336,895                  | 78,565                                  | 161,538             | 576,998                        |
| Depreciation  | -                        | -                                       | 1,359,544           | 1,359,544                      | -                        | -                                       | 1,157,256           | 1,157,256                      |
| <b>Total program expenses,<br/>including depreciation expense</b> | <b>5,170,157</b>         | <b>1,062,864</b>                        | <b>5,047,016</b>    | <b>11,280,037</b>              | <b>4,650,497</b>         | <b>1,128,688</b>                        | <b>3,958,525</b>    | <b>9,737,710</b>               |
| Management and General  | 631,918                  | 110,283                                 | 634,006             | 1,376,207                      | 488,434                  | 118,863                                 | 714,221             | 1,321,518                      |
| Depreciation, Management and General                              | -                        | -                                       | 37,594              | 37,594                         | -                        | -                                       | 34,418              | 34,418                         |
| Fundraising   | 1,098,092                | 209,222                                 | 993,386             | 2,300,700                      | 1,071,828                | 246,084                                 | 926,332             | 2,244,244                      |
| <b>Total operating expenses</b>                                   | <b>\$ 6,900,167</b>      | <b>\$ 1,382,369</b>                     | <b>\$ 6,712,002</b> | <b>\$ 14,994,538</b>           | <b>\$ 6,210,759</b>      | <b>\$ 1,493,635</b>                     | <b>\$ 5,633,496</b> | <b>\$ 13,337,890</b>           |

See Notes to Financial Statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Cash Flows

Years Ended June 30, 2007 and 2006

|   | 2007                 | 2006                |
|---|----------------------|---------------------|
| <b>Cash Flows from Operating Activities</b>   |                      |                     |
| Change in net assets  | <u>\$ 13,821,071</u> | <u>\$ 8,987,192</u> |
| Adjustments to reconcile change in net assets<br>to net cash provided by operating activities |                      |                     |
| Depreciation  | 1,397,138            | 1,191,674           |
| Net realized and unrealized gains on investments  | (2,177,137)          | (631,108)           |
| Contributions received for long-term use  | (1,301,647)          | (2,141,159)         |
| Changes in operating assets and liabilities   |                      |                     |
| Pledges receivable  | (8,057,905)          | 1,102,042           |
| Reimbursable program grant expenditures   | 258,617              | (135,980)           |
| Prepaid expenses and other assets   | (18,835)             | 67,177              |
| Accounts payable - trade  | 56,148               | 26,283              |
| Accrued expenses  | 499,423              | (399,179)           |
| Deferred revenue  | 46,129               | (77,225)            |
| <b>Total adjustments</b>  | <u>(9,298,069)</u>   | <u>(997,475)</u>    |
| <b>Net cash provided by operating activities</b>  | <u>4,523,002</u>     | <u>7,989,717</u>    |
| <b>Cash Flows from Investing Activities</b>   |                      |                     |
| Purchase of building improvements and equipment   | (8,447,350)          | (3,185,647)         |
| Proceeds from sale of investments   | 4,728,047            | 1,145,851           |
| Purchase of investments   | (7,258,767)          | (5,383,727)         |
| <b>Net cash used in investing activities</b>  | <u>(10,978,070)</u>  | <u>(7,423,523)</u>  |
| <b>Cash Flows from Financing Activities</b>   |                      |                     |
| Net borrowings under line of credit   | 2,872,725            | 10,000              |
| Contributions received for long-term use  | 1,301,647            | 2,141,159           |
| <b>Net cash provided by financing activities</b>  | <u>4,174,372</u>     | <u>2,151,159</u>    |
| Net (Decrease) Increase in Cash and Cash Equivalents  | (2,280,696)          | 2,717,353           |
| <b>Cash and Cash Equivalents:</b>   |                      |                     |
| Beginning of year   | <u>3,315,689</u>     | <u>598,336</u>      |
| End of year   | <u>\$ 1,034,993</u>  | <u>\$ 3,315,689</u> |
| <u>Supplemental Disclosure of Cash Flow Information</u>                                       |                      |                     |
| Cash paid during the year for interest  | <u>\$ 201,434</u>    | <u>\$ 72,004</u>    |
| Building improvements included in accounts payable  | <u>\$ 810,650</u>    | <u>\$ 2,044,858</u> |

See Notes to Financial Statements.

## Notes to Financial Statements

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### Note 1. Summary of Significant Accounting Policies

**Nature of Organization:** The mission of Boys & Girls Clubs of Boston (BGCB) is to help at-risk boys and girls develop the qualities needed to become responsible citizens and leaders. We offer a variety of affordable and effective programs and support services that assist in the educational, emotional, physical and social development of 6- to 18-year-olds, without regard to social, racial, ethnic, or religious background.

**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 donor 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 statements of activities.

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

Notes to Financial Statements

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

**Contributions (continued):** Unconditional pledges receivable 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.

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 as established by major securities markets 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 temporarily 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. 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 realized and unrealized gain or loss associated with these investments is reflected in the accompanying financial statements along with such amounts relating to marketable investments. The Organization believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2007 and 2006.

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.

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 2007 and 2006, the board voted to transfer 7% of the accumulated appreciation on endowment assets to the unrestricted fund. These funds amounted to \$150,000 and \$88,638 for the years ended June 30, 2007 and 2006, respectively.

**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, in-kind contributions relating to real property and changes in additional minimum pension liabilities recorded. All other activities that are deemed by management to be

Notes to Financial Statements

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

ongoing, major and central to operations are reported as operating revenues and expenses. Based on the Organization's spending guidelines, 4.5% of a three-year quarterly rolling average of the long-term investments balances, which amounted to \$444,673 and \$310,550 for the years ended June 30, 2007 and 2006, respectively, is utilized for operations.

**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 a conditional asset retirement obligation. The recording of a liability is required if the fair value of the obligation can be reasonably estimated. As of June 30, 2007 and 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 have 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 2006 financial statements in order to conform to the 2007 presentation.

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

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

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**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.

**Note 3. Pledges Receivable**

Unconditional promises to give at June 30, 2007 and 2006 are expected to be realized in the following periods:

|  | <u>2007</u>          | <u>2006</u>          |
|--|----------------------|----------------------|
| In one year or less                                  | \$ 15,857,378        | \$ 5,562,122         |
| Between one and five years                           | 9,442,240            | 11,383,036           |
| Greater than five years                              | <u>25,000</u>        | <u>225,000</u>       |
|  | 25,324,618           | 17,170,158           |
| Less:  |                      |                      |
| Allowance for uncollectible pledges                  | 163,555              | 173,000              |
| Discount to present value (ranging from 4.01%-4.92%) | <u>1,203,000</u>     | <u>1,097,000</u>     |
|  | <u>\$ 23,958,063</u> | <u>\$ 15,900,158</u> |

**Note 4. Temporarily Restricted Net Assets**

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

|   | <u>2007</u>          | <u>2006</u>          |
|---|----------------------|----------------------|
| Teen programs   | \$ 6,611             | \$ 4,063             |
| Technology programs   | 27,102               | 43,417               |
| Education programs  | 421,764              | 355,926              |
| Social worker programs  | 694,898              | 166,507              |
| Other specific activities of the Organization   | 1,590,736            | 1,057,447            |
| Scholarships  | 154,551              | 184,419              |
| Comprehensive Campaign  |                      |                      |
| Annual Fund   | 11,411,350           | 12,351,826           |
| Roxbury Facility Campaign   | -                    | 86,702               |
| Blue Hill Facility Campaign   | -                    | 98,276               |
| Chelsea Facility Campaign   | 70,780               | 66,965               |
| Green Street Facility Campaign  | 209,509              | 219,416              |
| Accumulated realized and unrealized net gains<br>on permanently restricted net assets | <u>3,284,411</u>     | <u>2,018,699</u>     |
|   | <u>\$ 17,871,712</u> | <u>\$ 16,653,663</u> |

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

**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>2007</u>          | <u>2006</u>         |
|---|----------------------|---------------------|
| Specific activities of the Organization | \$ 3,348,583         | \$ 3,094,115        |
| General activities of the Organization  | 14,614,398           | 6,725,058           |
|   | <u>\$ 17,962,981</u> | <u>\$ 9,819,173</u> |

**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, 2007 and 2006 are as follows:

|  | <u>2007</u>         | <u>2006</u>         |
|--|---------------------|---------------------|
| Teen programs  | \$ -                | \$ 126,512          |
| Technology programs  | 27,428              | 25,359              |
| Education programs   | 168,003             | 213,193             |
| Social worker programs   | 137,500             | 170,000             |
| Other specific activities of the Organization  | 1,161,730           | 636,979             |
| Scholarships   | 33,806              | 58,762              |
| Comprehensive Campaign   |                     |                     |
| Annual Fund  | 2,370,325           | 2,991,863           |
| Roxbury Facility Campaign  | 3,152,819           | 4,424,746           |
| Blue Hill Facility Campaign  | 2,360,343           | 131,400             |
| Chelsea Facility Campaign  | 252,878             | 300,000             |
| Green Street Facility Campaign   | 22,164              | 13,832              |
| Accumulated realized and unrealized net gains and (losses)<br>on permanently restricted net assets | 150,000             | 88,638              |
|  | <u>\$ 9,836,996</u> | <u>\$ 9,181,284</u> |

**Note 7. Investments**

Investments consisted of the following at June 30:

|                             | <u>2007</u>          | <u>2006</u>          |
|-----------------------------|----------------------|----------------------|
|                             | <u>Market Value</u>  | <u>Market Value</u>  |
| Short-term investments      |                      |                      |
| Cash and cash equivalents   | \$ 2,690,157         | \$ 1,557,309         |
| Long-term investments       |                      |                      |
| Cash and cash equivalents   | 1,233,800            | 3,468,874            |
| Fixed income                | 2,621,116            | 2,311,481            |
| Equity                      | 8,419,722            | 5,208,324            |
| Alternative investments     | 4,842,592            | 2,553,545            |
| Total long-term investments | <u>17,117,230</u>    | <u>13,542,224</u>    |
| Total investments           | <u>\$ 19,807,388</u> | <u>\$ 15,099,533</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.

Information relative to the Organization's defined benefit pension plan is presented below:

*Obligations and Funded Status*

|   | <u>2007</u>         | <u>2006</u>         |
|---|---------------------|---------------------|
| Obligations and funded status at end of years:  |                     |                     |
| Fair value of plan assets   | \$ 2,032,774        | \$ 1,455,433        |
| Benefit obligations   | <u>2,611,238</u>    | <u>2,219,198</u>    |
| Funded status at end of years   | <u>\$ (578,464)</u> | <u>\$ (763,765)</u> |
| Amounts recognized on statement of financial position:  |                     |                     |
| Accrued expenses  | <u>\$ (578,464)</u> | <u>\$ (218,856)</u> |
| Cumulative effect of change in accounting principle (Note 14)   |                     | <u>\$ (544,909)</u> |
| Amounts recognized as changes in unrestricted net assets but not yet reclassified as components of net periodic benefit cost consist of:  |                     |                     |
| Net actuarial gain  | <u>\$ 839,239</u>   | <u>\$ 886,289</u>   |
| For pension plans with accumulated benefit obligations in excess of assets at June 30 of the respective years, aggregate amounts were:  |                     |                     |
| Projected benefit obligations   | \$ 2,611,238        | \$ 2,219,198        |
| Accumulated benefit obligations   | 1,981,173           | 1,674,289           |
| Plan assets   | 2,032,774           | 1,455,433           |
| <i>Net Periodic Benefit Cost and Other Changes in Unrestricted Net Assets</i>   |                     |                     |
| Net periodic benefit cost   | \$ 330,749          | \$ 433,958          |
| Other changes in net assets not yet included in net periodic benefit cost and reclassifications to net periodic benefit cost, of amounts previously recognized as changes in unrestricted net assets but not included in net periodic benefit cost when they arose: |                     |                     |
| Net actuarial (gain) loss   | (47,050)            | (579,347)           |
| Other actuarial changes   | -                   | 77,746              |
|   | <u>(47,050)</u>     | <u>(501,601)</u>    |
| Total amounts recognized as changes in unrestricted net assets arising from the defined benefit plan  | <u>\$ 283,699</u>   | <u>\$ (145,389)</u> |

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 8. Retirement Plans (continued)

*Assumptions*

|  | <u>2007</u> | <u>2006</u> |
|--|-------------|-------------|
| Weighted-average assumptions used in computing ending obligations: |             |             |
| Discount rate  | 6.25%       | 6.25%       |
| Rate of compensation increase                                      | 3.00        | 3.00        |
| Weighted-average assumptions used in computing net cost:           |             |             |
| Discount rate  | 6.25%       | 5.25%       |
| Rate of compensation increase                                      | 3.00        | 3.00        |
| Expected return on plan assets                                     | 7.50        | 7.50        |

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.

*Plan Assets*

| <u>Asset Category</u> | Percentage of Plan Assets<br>at June 30, |             |
|-----------------------|--|-------------|
|                       | <u>2007</u>                              | <u>2006</u> |
| Pension plans:        |  |             |
| Equity securities     | 60%                                      | 60%         |
| Debt securities       | 40                                       | 39          |
| Cash equivalent       | 0  | 1           |
| Total                 | <u>100%</u>                              | <u>100%</u> |

*Cash Flows*

|                         |               |
|-------------------------|---------------|
| Employer contributions: | <u>Amount</u> |
| 2006                    | \$ 469,783    |
| 2007                    | 469,000       |
| 2008 (expected)         | 362,500       |

|                   |               |
|-------------------|---------------|
| Benefit payments: | <u>Amount</u> |
| 2006              | \$ 92,806     |
| 2007              | 94,439        |

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

|             |               |
|-------------|---------------|
|             | <u>Amount</u> |
| <u>Year</u> |               |
| 2008        | \$ 52,000     |
| 2009        | 38,000        |
| 2010        | 38,000        |
| 2011        | 129,000       |
| 2012        | 214,000       |
| 2013 – 2017 | 1,776,000     |

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

### Notes to Financial Statements

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#### Note 9. Lines of Credit

At June 30, 2007, the Organization may, at its option, borrow against three lines of credit, payable on demand.

Under the operating line of credit, interest is payable based on LIBOR plus one percent (6.32% at June 30, 2007). The maximum amount available under the line of credit is \$4,000,000 and it expires on January 1, 2008, 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 no balance outstanding under this line at June 30, 2007 and 2006.

Under the capital line of credit for Green Street, interest is payable based on LIBOR plus two percent (7.32% at June 30, 2007). The maximum amount available under the line of credit is \$3,000,000 and it expires on December 1, 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 \$28,000 and \$85,000 outstanding under this line at June 30, 2007 and 2006.

Under the capital line of credit for Roxbury and Blue Hill, interest is payable based on LIBOR plus one percent (6.32% at June 30, 2007). The maximum amount available under the line of credit is \$10,000,000 and it expires on April 1, 2010, at which point the outstanding amount may be converted to a sixty-month term loan, at the option of the Organization. The Organization had \$3,929,725 and \$1,000,000 outstanding under this line at June 30, 2007 and 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 \$283,794 and \$72,004 for the years ended June 30, 2007 and 2006, respectively.

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

|                                   | <u>2007</u>          | <u>2006</u>          |
|-----------------------------------|----------------------|----------------------|
| Land                              | \$ 160,324           | \$ 160,324           |
| Buildings and improvements        | 36,992,089           | 28,897,204           |
| Construction in progress          | 3,985,133            | 4,932,022            |
| Equipment, furniture and fixtures | 1,659,874            | 1,594,723            |
|                                   | <u>42,797,420</u>    | <u>35,584,273</u>    |
| Less: accumulated depreciation    | <u>12,773,277</u>    | <u>11,376,137</u>    |
|                                   | <u>\$ 30,024,143</u> | <u>\$ 24,208,136</u> |

Depreciation expense amounted to \$1,397,138 and \$1,191,674 for the years ended June 30, 2007 and 2006, 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 \$1,473,240 and \$1,150,957 for the years ended June 30, 2007 and 2006, respectively. Some professional services also were received from related parties on an in-kind basis.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

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

The Organization receives and recognizes contributed gifts-in-kind, primarily in the form of rent and consulting services, 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, 2007 and 2006, the Organization paid \$329,825 and \$310,224, respectively.

The following is a schedule of minimum lease payments as of June 30, 2007 under these lease agreements:

| <u>Years ending June 30,</u> | <u>Amount</u>       |
|------------------------------|---------------------|
| 2008                         | \$ 281,437          |
| 2009                         | 237,281             |
| 2010                         | 233,449             |
| 2011                         | 228,514             |
| 2012                         | 76,171              |
|                              | <u>\$ 1,056,852</u> |

**Note 14. Cumulative Effect of Change in Accounting Principle**

Effective July 1, 2006, the Organization adopted FASB Statement 158, *Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans*. The new accounting standard requires that the financial statements reflect the funded status of a defined benefit plan. The adjustment to record the resulting liability for the underfunded status of the plan was \$544,909, and was recorded as a cumulative effect of a change in accounting principle in 2007.