

# The Boys and Girls Clubs of Boston, Inc.

Financial Report  
June 30, 2008

**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 statements of financial position of The Boys and Girls Clubs of Boston, Inc. (the "Organization") as of June 30, 2008 and 2007, 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, 2008 and 2007, 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  
November 3, 2008

The Boys and Girls Clubs of Boston, Inc.

Statements of Financial Position

June 30, 2008 and 2007

Assets	2008	2007
Cash and cash equivalents	\$ 2,437,754	\$ 1,034,993
Short-term investments, at market value (Note 7)	1,663,545	2,690,157
Reimbursable program grant expenditures	492,347	292,530
Prepaid expenses and other assets	173,472	118,849
Pledges receivable (Notes 3, 5 and 12)	25,307,087	23,958,063
Long-term investments, at market value (Note 7)	21,267,110	17,117,230
Land, buildings and equipment, at cost, net (Note 10)	31,192,365	30,024,143
<b>Total assets</b>	<b>\$ 82,533,680</b>	<b>\$ 75,235,965</b>
<b>Liabilities and Net Assets</b>		
Line of credit (Note 9)	\$ 2,400,000	\$ 3,957,725
Accounts payable - construction	-	810,650
Accounts payable - trade	468,605	314,734
Accrued expenses (Notes 8 and 14)	1,297,619	955,916
Deferred revenue	153,086	129,687
<b>Total liabilities</b>	<b>4,319,310</b>	<b>6,168,712</b>
<b>Net Assets</b>		
Unrestricted		
Board designated	1,154,338	1,154,338
Plant fund	30,697,665	29,654,400
Operating	4,469,851	2,423,822
	<b>36,321,854</b>	<b>33,232,560</b>
Temporarily restricted (Notes 4 and 6)	13,268,010	17,871,712
Permanently restricted (Note 5)	28,624,506	17,962,981
<b>Total net assets</b>	<b>78,214,370</b>	<b>69,067,253</b>
<b>Total liabilities and net assets</b>	<b>\$ 82,533,680</b>	<b>\$ 75,235,965</b>

See Notes to Financial Statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Activities

Years Ended June 30, 2008 and 2007

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains and Other Support</b>								
United Way contributions	\$ 1,105,738	\$ -	\$ -	\$ 1,105,738	\$ 1,088,754	-	-	\$ 1,088,754
Contributions and benefits	4,989,888	6,362,608	8,904,025	20,256,521	4,567,544	9,578,574	8,143,808	22,289,926
Grants from governmental agencies - Federal	850,584	-	-	850,584	713,194	-	-	713,194
Grants from governmental agencies - State and City	112,399	-	-	112,399	361,759	-	-	361,759
Parent fees, vouchers, member dues, and club camp fees	727,042	-	-	727,042	495,316	-	-	495,316
Gifts-in-kind (Note 12)	258,240	-	-	258,240	803,631	-	-	803,631
Service and other income	1,313,884	-	-	1,313,884	544,877	-	-	544,877
Investment income on long-term investments designated by the Board for operations (Note 6)	708,909	(451,148)	-	257,761	594,673	(150,000)	-	444,673
Net assets released from restrictions (Note 6)	6,247,991	(6,247,991)	-	-	5,411,948	(5,411,948)	-	-
<b>Total revenues, gains and other support</b>	<b>16,314,675</b>	<b>(336,531)</b>	<b>8,904,025</b>	<b>24,882,169</b>	<b>14,581,696</b>	<b>4,016,626</b>	<b>8,143,808</b>	<b>26,742,130</b>
<b>Operating Expenses (Notes 8, 9, 11, and 13)</b>								
Program Services	11,093,843	-	-	11,093,843	9,920,493	-	-	9,920,493
Management and general	1,773,111	-	-	1,773,111	1,528,103	-	-	1,528,103
Fundraising	2,321,571	-	-	2,321,571	2,148,804	-	-	2,148,804
<b>Total operating expenses</b>	<b>15,188,525</b>	<b>-</b>	<b>-</b>	<b>15,188,525</b>	<b>13,597,400</b>	<b>-</b>	<b>-</b>	<b>13,597,400</b>
<b>Income (loss) from operations before depreciation</b>	<b>1,126,150</b>	<b>(336,531)</b>	<b>8,904,025</b>	<b>9,693,644</b>	<b>984,296</b>	<b>4,016,626</b>	<b>8,143,808</b>	<b>13,144,730</b>
Depreciation expense (Note 10)	1,646,415	-	-	1,646,415	1,397,138	-	-	1,397,138
<b>Income (loss) from operations</b>	<b>(520,265)</b>	<b>(336,531)</b>	<b>8,904,025</b>	<b>8,047,229</b>	<b>(412,842)</b>	<b>4,016,626</b>	<b>8,143,808</b>	<b>11,747,592</b>
<b>Non-operating activities</b>								
Net assets released from restriction (capital expenditures) (Note 6)	2,029,415	(2,029,415)	-	-	4,275,048	(4,275,048)	-	-
In-kind gift for renovation (Note 12)	2,000,000	-	-	2,000,000	797,000	-	-	797,000
Investment income on long-term investment designated by the Board for operations	(257,761)	-	-	(257,761)	(444,673)	-	-	(444,673)
Interest and dividend income	257,761	45,133	-	302,894	313,743	52,953	-	366,696
Investment expense	(75,082)	-	-	(75,082)	(50,721)	-	-	(50,721)
Net realized gains on investments	519,681	119,766	-	639,447	508,749	176,808	-	685,557
Net unrealized gains (losses) on investments	(590,587)	(645,155)	-	(1,235,742)	244,870	1,246,710	-	1,491,580
Comprehensive campaign expenses	(91,874)	-	-	(91,874)	(274,101)	-	-	(274,101)
Reclassification of donor intent	-	(1,757,500)	1,757,500	-	-	-	-	-
Pension liability adjustment (Note 8)	(181,994)	-	-	(181,994)	47,050	-	-	47,050
<b>Non-operating gains (losses)</b>	<b>3,609,559</b>	<b>(4,267,171)</b>	<b>1,757,500</b>	<b>1,099,888</b>	<b>5,416,965</b>	<b>(2,798,577)</b>	<b>-</b>	<b>2,618,388</b>
<b>Change in accounting principle (Notes 8 and 14)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(544,909)</b>	<b>-</b>	<b>-</b>	<b>(544,909)</b>
<b>Change in net assets</b>	<b>3,089,294</b>	<b>(4,603,702)</b>	<b>10,661,525</b>	<b>9,147,117</b>	<b>4,459,214</b>	<b>1,218,049</b>	<b>8,143,808</b>	<b>13,821,071</b>
Net Assets - Beginning 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
Net Assets - End of Year	<b>\$ 36,321,854</b>	<b>\$ 13,268,010</b>	<b>\$ 28,624,506</b>	<b>\$ 78,214,370</b>	<b>\$ 33,232,560</b>	<b>\$ 17,871,712</b>	<b>\$ 17,962,981</b>	<b>\$ 69,067,253</b>

See Notes to Financial Statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Functional Expenses  
Years Ended June 30, 2008 and 2007

	2008				2007			
	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	\$ 286,651	\$ 62,395	\$ 56,795	\$ 405,841	\$ 241,496	\$ 50,132	\$ 61,263	\$ 352,891
Education	402,730	89,499	83,372	575,601	245,034	51,133	130,312	426,479
Leadership and character development	114,902	26,332	99,569	240,803	92,315	19,517	87,636	199,468
Life skills	597,785	134,685	101,087	833,557	683,413	141,364	92,265	917,042
Sports, fitness, recreation	686,710	155,462	87,612	929,784	587,699	121,809	71,814	781,322
Technology	244,013	52,141	160,992	457,146	244,486	50,520	188,888	483,894
Summer programs	303,289	73,529	202,237	579,055	236,995	49,196	133,376	419,567
School age child care	209,714	46,678	56,346	312,738	155,782	32,321	56,913	245,016
Member services	266,819	59,715	116,037	442,571	244,602	49,960	100,634	395,196
Youth Service Providers Network	695,516	153,459	111,120	960,095	606,380	126,829	76,285	809,494
Shared space sites	909,149	162,452	395,342	1,466,943	416,760	76,245	82,789	575,794
Programs (Support Expenses)								
Facility maintenance, insurance and utilities	258,605	57,051	1,495,861	1,811,517	210,388	52,850	1,625,355	1,888,593
Program management and administration	922,692	203,944	253,426	1,380,062	823,040	169,162	692,933	1,685,135
Program development and staff support	379,973	86,370	231,787	698,130	381,767	71,826	287,009	740,602
Depreciation	-	-	1,609,432	1,609,432	-	-	1,359,544	1,359,544
<b>Total program expenses, including depreciation expense</b>	<b>6,278,548</b>	<b>1,363,712</b>	<b>5,061,015</b>	<b>12,703,275</b>	<b>5,170,157</b>	<b>1,062,864</b>	<b>5,047,016</b>	<b>11,280,037</b>
Management and General	777,105	165,555	830,451	1,773,111	631,918	110,283	785,902	1,528,103
Depreciation, Management and General	-	-	36,983	36,983	-	-	37,594	37,594
Fundraising	973,082	216,017	1,132,472	2,321,571	1,098,092	209,222	841,490	2,148,804
<b>Total operating expenses and depreciation expenses</b>	<b>\$ 8,028,735</b>	<b>\$ 1,745,284</b>	<b>\$ 7,060,921</b>	<b>\$ 16,834,940</b>	<b>\$ 6,900,167</b>	<b>\$ 1,382,369</b>	<b>\$ 6,712,002</b>	<b>\$ 14,994,538</b>

See Notes to Financial Statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities		
Change in net assets	\$ 9,147,117	\$ 13,821,071
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,646,415	1,397,138
In-kind gift for renovation	(2,000,000)	(797,000)
Net realized and unrealized (gains) losses on investments	596,297	(2,177,137)
Contributions received for long-term use	(3,517,725)	(1,301,647)
Changes in operating assets and liabilities		
Pledges receivable	(1,349,024)	(8,057,905)
Reimbursable program grant expenditures	(199,817)	258,617
Prepaid expenses and other assets	(54,623)	(18,835)
Accounts payable - trade	153,871	56,148
Accrued expenses	341,703	499,423
Deferred revenue	23,399	46,129
<b>Total adjustments</b>	<b>(4,359,504)</b>	<b>(10,095,069)</b>
<b>Net cash provided by operating activities</b>	<b>4,787,613</b>	<b>3,726,002</b>
Cash Flows from Investing Activities		
Purchase of building improvements and equipment	(1,625,289)	(7,650,350)
Proceeds from sale of investments	5,010,903	4,728,047
Purchase of investments	(8,730,466)	(7,258,767)
<b>Net cash used in investing activities</b>	<b>(5,344,852)</b>	<b>(10,181,070)</b>
Cash Flows from Financing Activities		
Net borrowings under line of credit	(1,557,725)	2,872,725
Contributions received for long-term use	3,517,725	1,301,647
<b>Net cash provided by financing activities</b>	<b>1,960,000</b>	<b>4,174,372</b>
Net Increase (Decrease) in Cash and Cash Equivalents	1,402,761	(2,280,696)
Cash and Cash Equivalents:		
Beginning of year	1,034,993	3,315,689
End of year	\$ 2,437,754	\$ 1,034,993
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid during the year for interest	\$ 227,151	\$ 201,434
Building improvements included in accounts payable	\$ -	\$ 810,650
In-kind gift included in building improvements	\$ 2,000,000	\$ 797,000

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 and Girls Clubs of Boston, Inc. (the "Organization") is to help at-risk boys and girls develop the qualities needed to become responsible citizens and leaders. The Organization offers 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. 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 are received. 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.

**Investments:** Investments in marketable securities, primarily mutual funds, are stated at fair value as established by major securities markets and are pooled for investment purposes. 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, 2008 and 2007.

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 2008 and 2007, the board voted to transfer up to 7% of the accumulated appreciation on endowment assets to the unrestricted fund. These funds amounted to \$86,256 and \$150,000 for the years ended June 30, 2008 and 2007, respectively.

Notes to Financial Statements

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

**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 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 \$622,653 and \$444,673 for the years ended June 30, 2008 and 2007, respectively, is utilized for operations.

**Cash and Cash Equivalents:** The Organization maintains some of its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on 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.

The Organization has 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, 2008 and 2007, 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.

## Notes to Financial Statements

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

**Recently Issued Accounting Pronouncements:** In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for the Organization's fiscal year 2010 financial statements. The Organization does not believe the effect, if any, of adopting FIN 48 will have a material impact on its financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which establishes a framework for measuring fair value and expands disclosures about the use of fair value measurements and liabilities in interim and annual reporting periods subsequent to initial recognition. Prior to the issuance of SFAS 157, which emphasizes that fair value is a market-based measurement and not an entity-specific measurement, there were different definitions of fair value and limited guidance for applying those definitions in Generally Accepted Accounting Principles. SFAS 157 is effective for the Organization's 2009 financial statements. The Organization does not believe the effect, if any, of adopting SFAS 157 will have a material impact on its financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of SFAS No. 115*, which expands the standards under SFAS No. 157, *Fair Value Measurements* to provide entities the one-time election to measure financial instruments and certain other items at fair value. SFAS No. 159 is effective for the Organization's fiscal year 2009 financial statements. The Organization is in the process of evaluating the impact the adoption of SFAS No. 159 might have on its financial statements.

In August 2008, the FASB issued Staff Position (FSP) No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, this position provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission (ULC; formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. This FSP also improves disclosures about an organization's *endowment funds* (both donor-restricted endowment funds and *board-designated endowment funds*), whether or not the organization is subject to UPMIFA. FSP No. 117-1 is effective for the Organization's fiscal year 2009 financial statements. The Organization does not believe the effect, if any, of adopting FSP No. 117-1 will have a material impact on its financial position and results of operations.

**Reclassification:** Certain reclassifications have been made to the 2007 financial statements in order to conform to the 2008 presentation.

**Contingencies:** The Organization is subject to claims which have arisen 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.

### 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, 2008 and 2007 are expected to be realized in the following periods:

	<u>2008</u>	<u>2007</u>
In one year or less	\$ 15,832,403	\$ 15,857,378
Between one and five years	10,150,684	9,442,240
Greater than five years	<u>350,000</u>	<u>25,000</u>
	26,333,087	25,324,618
Less:		
Allowance for uncollectible pledges	263,000	163,555
Discount to present value (ranging from 3.34%-4.92%)	<u>763,000</u>	<u>1,203,000</u>
	<u>\$ 25,307,087</u>	<u>\$ 23,958,063</u>

**Note 4. Temporarily Restricted Net Assets**

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

	<u>2008</u>	<u>2007</u>
Teen programs	\$ 6,686	\$ 6,611
Technology programs	25,779	27,102
Education programs	250,819	421,764
Social worker programs	662,898	694,898
Other specific activities of the Organization	1,672,113	1,590,736
Scholarships	140,614	154,551
Comprehensive Campaign		
Annual Fund	7,977,488	11,411,350
Roxbury Facility Campaign	36,000	-
Blue Hill Facility Campaign	10,000	-
Chelsea Facility Campaign	78,804	70,780
Green Street Facility Campaign	98,934	209,509
Accumulated realized and unrealized net gains on permanently restricted net assets	<u>2,307,875</u>	<u>3,284,411</u>
	<u>\$ 13,268,010</u>	<u>\$ 17,871,712</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>2008</u>	<u>2007</u>
Specific activities of the Organization	\$ 10,930,229	\$ 3,348,583
General activities of the Organization	<u>17,694,277</u>	<u>14,614,398</u>
	<u>\$ 28,624,506</u>	<u>\$ 17,962,981</u>

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

### Notes to Financial Statements

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#### 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, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Technology programs	\$ 11,500	\$ 27,428
Education programs	191,622	168,003
Social worker programs	280,000	137,500
Other specific activities of the Organization	1,407,322	1,161,730
Scholarships	19,750	33,806
Comprehensive Campaign		
Annual Fund	2,051,104	2,370,325
Roxbury Facility Campaign	152,565	3,152,819
Blue Hill Facility Campaign	3,869,938	2,360,343
Chelsea Facility Campaign	250,000	252,878
Green Street Facility Campaign	43,605	22,164
Accumulated realized and unrealized net gains and (losses) on permanently restricted net assets	<u>451,148</u>	<u>150,000</u>
	<u>\$ 8,728,554</u>	<u>\$ 9,836,996</u>

#### Note 7. Investments

Investments consisted of the following at June 30:

	<u>2008</u> <u>Fair Value</u>	<u>2007</u> <u>Fair Value</u>
Short-term investments		
Cash and cash equivalents	<u>\$ 1,663,545</u>	<u>\$ 2,690,157</u>
Long-term investments		
Money market fund	2,389,120	1,233,800
Fixed income	2,580,964	2,621,116
Equity	9,901,579	8,419,722
Alternative investments	<u>6,395,447</u>	<u>4,842,592</u>
Total long-term investments	<u>21,267,110</u>	<u>17,117,230</u>
Total investments	<u>\$ 22,930,655</u>	<u>\$ 19,807,387</u>

As of June 30, 2008, the Organization has approximately \$1,700,000 of commitments to certain alternative investment funds outstanding.

Subsequent to year-end, the credit and liquidity crisis throughout the global financial system has resulted in substantial volatility in financial markets, the banking system and investment portfolios. As a result, the Organization's investments have likely incurred a significant decline in fair value since June 30, 2008.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

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**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 incurred.

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

*Obligations and Funded Status*

	<u>2008</u>	<u>2007</u>
Obligations and funded status at end of years:		
Fair value of plan assets	\$ 2,155,423	\$ 2,032,774
Benefit obligations	<u>2,906,620</u>	<u>2,611,238</u>
Funded status at end of years	<u>\$ (751,197)</u>	<u>\$ (578,464)</u>
Amounts recognized on statement of financial position:		
Accrued expenses	<u>\$ (751,197)</u>	<u>\$ (578,464)</u>
Cumulative effect of change in accounting principle (Note 14)	<u>\$ -</u>	<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>\$ 1,021,233</u>	<u>\$ 839,239</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	\$ 2,906,620	\$ 2,611,238
Accumulated benefit obligations	2,245,353	1,981,173
Plan assets	2,155,423	2,032,774
<i>Net Periodic Benefit Cost and Other Changes in Unrestricted Net Assets</i>		
Net periodic benefit cost	\$ 335,739	\$ 330,749
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	<u>181,994</u>	<u>(47,050)</u>
Total amounts recognized as changes in unrestricted net assets arising from the defined benefit plan	<u>\$ 517,733</u>	<u>\$ 283,699</u>

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 8. Retirement Plans (continued)

*Assumptions*

	<u>2008</u>	<u>2007</u>
Weighted-average assumptions used in computing ending obligations:		
Discount rate	6.75%	6.25%
Rate of compensation increase	3.00	3.00
Weighted-average assumptions used in computing net cost:		
Discount rate	6.25%	6.25%
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 at June 30,	
	<u>2008</u>	<u>2007</u>
Pension plans:		
Equity securities	59%	60%
Debt securities	41	40
Total	<u>100%</u>	<u>100%</u>

*Cash Flows*

Employer contributions:	<u>Amount</u>
2007	\$ 469,000
2008	365,000
2009 (expected)	350,000

Benefit payments:	<u>Amount</u>
2007	\$ 94,439
2008	11,333

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

	<u>Amount</u>
<u>Year</u>	
2009	\$ 70,000
2010	79,000
2011	178,000
2012	293,000
2013	636,000
2014 – 2018	2,287,000

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

### Notes to Financial Statements

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#### Note 9. Lines of Credit

At June 30, 2008, the Organization may, at its option, borrow against two (three at June 30, 2007) lines of credit, payable on demand.

Under the operating line of credit, interest is payable based on LIBOR plus one percent (3.48% at June 30, 2008). The maximum amount available under the line of credit is \$4,000,000 and it expires on March 1, 2009, 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, 2008 and 2007.

Under the capital line of credit for Roxbury and Blue Hill, interest is payable based on LIBOR plus one percent (3.48% at June 30, 2008). 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 \$2,400,000 and \$3,929,725 outstanding under this line at June 30, 2008 and 2007.

At June 30, 2007, under the capital line of credit for Green Street, interest was payable based on LIBOR plus two percent. The maximum amount available under the line of credit was \$3,000,000 and it expired on December 1, 2007. The Organization had \$28,000 outstanding under this line at June 30, 2007.

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 \$176,383 and \$283,794 for the years ended June 30, 2008 and 2007, respectively.

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

	<u>2008</u>	<u>2007</u>
Land	\$ 160,324	\$ 160,324
Buildings and improvements	43,627,070	36,992,089
Equipment, furniture and fixtures	1,824,663	1,659,874
Construction in progress	-	3,985,133
	<u>45,612,057</u>	<u>42,797,420</u>
Less: accumulated depreciation	<u>14,419,692</u>	<u>12,773,277</u>
	<u>\$ 31,192,365</u>	<u>\$ 30,024,143</u>

Depreciation expense amounted to \$1,646,415 and \$1,397,138 for the years ended June 30, 2008 and 2007, 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 \$1,505,324 and \$1,473,240 for the years ended June 30, 2008 and 2007, respectively. Some professional services also were received from related parties on an in-kind basis.

Notes to Financial Statements

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

The Organization receives and recognizes contributed gifts-in-kind, in the form of consulting and other services, at fair value. Contributions made for activities have been recorded as operating income, and contributions received in connection with capital renovations have been recorded as non-operating income.

The Organization has entered into long-term leases with the Trustees of the George Robert White Fund for the Blue Hill Club and a portion of the South Boston Club. The use of these facilities constitutes a "gift-in-title", the value of which is equal to the fair market value of the facilities at the commencement of the leases.

**Note 13. Operating Leases**

The Organization has a variety of operating leases for automobiles, equipment and office space. As of June 30, 2008 and 2007, the Organization paid \$282,077 and \$329,825, respectively.

The following is a schedule of minimum lease payments as of June 30, 2008 under these lease agreements:

<u>Years ending June 30,</u>	<u>Amount</u>
2009	\$ 252,941
2010	253,048
2011	247,473
2012	79,224
2013	3,940
	<u>\$ 836,626</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.