

**The Boys and Girls
Clubs of Boston, Inc.**
Financial Statements
June 30, 2004 and 2003

The Boys and Girls Clubs of Boston, Inc.

Index

June 30, 2004 and 2003

	Page(s)
Report of Independent Auditors	1
Financial Statements	
Statements of Financial Position.....	2
Statements of Unrestricted Revenues, Expenses, and Other Changes in Unrestricted Net Assets.....	3
Statements of Changes in Net Assets.....	4
Statements of Cash Flows.....	5
Statements of Functional Expenses.....	6
Notes to Financial Statements.....	7-15

Report of Independent Auditors

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

In our opinion, the accompanying statements of financial position and the related statements of unrestricted revenues, expenses, and other changes in unrestricted net assets, changes in net assets, cash flows and functional expenses present fairly, in all material respects, the financial position of the Boys and Girls Clubs of Boston, Inc. (the "Organization") at June 30, 2004 and 2003 and the changes in its net assets, its cash flows, and its functional expenses for the years then ended, in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 13, 2004

The Boys and Girls Clubs of Boston, Inc.
Statements of Financial Position
June 30, 2004 and 2003

	2004	2003
Assets		
Cash and cash equivalents	\$ 274,027	\$ 1,941,518
Pledges receivable (Notes 1 and 3)	8,429,717	5,918,980
Reimbursable program grant expenditures	190,567	284,129
Prepaid expenses and other assets	173,273	71,403
Investments, at market (Notes 1 and 7)	7,411,334	7,894,611
Land, buildings and equipment, at cost, net of depreciation (Notes 1 and 10)	<u>20,939,297</u>	<u>20,161,922</u>
Total assets	<u>\$ 37,418,215</u>	<u>\$ 36,272,563</u>
Liabilities and Net Assets		
Accounts payable	\$ 413,261	\$ 1,451,242
Accrued expenses (Note 9)	524,402	921,888
Line of credit (Note 10)	525,000	1,621,582
Deferred revenue	<u>138,957</u>	<u>99,212</u>
Total liabilities	<u>1,601,620</u>	<u>4,093,924</u>
Net assets		
Unrestricted		
Board designated	1,154,338	1,154,338
Plant fund	20,939,297	20,161,922
Operating	<u>1,408,019</u>	<u>1,240,995</u>
	23,501,654	22,557,255
Temporarily restricted (Notes 1, 4 and 6)	8,075,934	7,458,754
Permanently restricted (Notes 1 and 5)	<u>4,239,007</u>	<u>2,162,630</u>
Total net assets	<u>35,816,595</u>	<u>32,178,639</u>
Total liabilities and net assets	<u>\$ 37,418,215</u>	<u>\$ 36,272,563</u>

The accompanying notes are an integral part of these financial statements.

The Boys and Girls Clubs of Boston, Inc.
Statements of Unrestricted Revenues, Expenses, and Other Changes in
Unrestricted Net Assets
Years Ended June 30, 2004 and 2003

	2004	2003
Operating revenues		
United Way contributions	\$ 961,415	\$ 1,072,167
Contributions and benefits	3,609,185	3,171,253
Grants from governmental agencies	1,083,175	1,252,734
Investment income on long-term investments designated by the Board for operations (Note 1)	213,690	208,968
Community events	491,172	500,407
Parent fees and vouchers	372,123	333,825
Member dues and camp fees	264,321	225,199
Rental of facilities	157,460	60,214
Service and other income	323,778	206,915
Net assets released from restrictions for operations and satisfaction of program restrictions (Note 6)	4,168,583	4,540,477
Total operating revenues	<u>11,644,902</u>	<u>11,572,159</u>
Operating expenses		
Program expenses		
Arts	298,598	271,449
Education	487,486	557,861
Leadership and character development	217,932	253,354
Life skills	644,690	651,084
Sports, fitness, recreation	763,195	850,563
Technology	433,869	453,198
Supplemental summer programs	226,206	309,707
School age child care	337,497	316,460
Member services	444,522	526,852
Partnerships	1,960,703	1,946,099
Facility maintenance, insurance and utilities	1,207,225	1,151,850
Program management and administration	1,047,835	963,874
Program development and staff support	461,860	398,943
Total program expenses	<u>8,531,618</u>	<u>8,651,294</u>
Management and general	1,121,543	1,081,359
Fundraising	1,965,956	1,816,004
Total operating expenses	<u>11,619,117</u>	<u>11,548,657</u>
Income from operations before depreciation expense	25,785	23,502
Depreciation expense	1,028,467	888,955
Loss from operations	<u>(1,002,682)</u>	<u>(865,453)</u>
Nonoperating gains (losses)		
Interest and dividend income	128,996	57,581
Investment expenses	(48,515)	(32,327)
Investment income on long-term investments designated by the Board for operations (Note 1)	(213,690)	(208,968)
Net realized gains (losses) on investments	9,912	(77,697)
Net unrealized gains on investments	308,221	90,230
Net assets released from restrictions for acquisition of land, buildings, and equipment (Note 6)	1,630,077	4,338,415
Additional minimum pension liability (Note 8)	132,080	(720,975)
Nonoperating gains, net	<u>1,947,081</u>	<u>3,446,259</u>
Increase in unrestricted net assets	<u>\$ 944,399</u>	<u>\$ 2,580,806</u>

The accompanying notes are an integral part of these financial statements.

The Boys and Girls Clubs of Boston, Inc.
Statements of Changes in Net Assets
Years Ended June 30, 2004 and 2003

	2004	2003
Increase in unrestricted net assets	\$ 944,399	\$ 2,580,806
Temporarily restricted net assets		
Contributions	5,945,819	8,650,677
Interest and dividend income on temporarily and permanently restricted net assets	95,645	59,007
Net realized gains (losses) on permanently restricted net assets	12,056	(19,828)
Net unrealized gains (losses) on permanently restricted net assets	409,700	44,631
Change in allowance and discount for pledges receivable (Note 3)	(47,380)	57,869
Net assets released from restrictions (Note 6)	(5,798,660)	(8,878,892)
Transfers (Note 1)	-	-
Increase (decrease) in temporarily restricted net assets	<u>617,180</u>	<u>(86,536)</u>
Permanently restricted net assets		
Contributions	<u>2,076,377</u>	<u>179,624</u>
Increase in permanently restricted net assets	<u>2,076,377</u>	<u>179,624</u>
Change in net assets	3,637,956	2,673,894
Net assets at beginning of year	<u>32,178,639</u>	<u>29,504,745</u>
Net assets at end of year	<u>\$ 35,816,595</u>	<u>\$ 32,178,639</u>

The accompanying notes are an integral part of these financial statements.

The Boys and Girls Clubs of Boston, Inc.
Statements of Cash Flows
Years Ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Change in net assets	\$ 3,637,956	\$ 2,673,894
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,028,467	888,955
Net realized and unrealized (gains) losses on investments	(739,889)	(37,336)
Permanently restricted contributions	(508,897)	(179,624)
Changes in assets and liabilities		
Pledges receivable	(2,510,737)	(1,979,183)
Service contract fees and advances receivable	-	36,474
Reimbursable program grant expenditures	93,562	375,945
Prepaid expenses and other assets	(101,870)	(15,496)
Accounts payable	(1,037,981)	647,463
Accrued expenses	(397,486)	681,094
Deferred revenue	39,745	1
Net cash provided by (used in) operating activities	<u>(497,130)</u>	<u>3,092,187</u>
Cash flows from investing activities		
Building improvements	(1,665,795)	(4,397,276)
Purchase of equipment	(140,047)	(150,817)
Proceeds from sale of investments	6,614,438	1,052,746
Purchase of investments	<u>(5,391,272)</u>	<u>(559,524)</u>
Net cash used in investing activities	<u>(582,676)</u>	<u>(4,054,871)</u>
Cash flows from financing activities		
Net borrowings under line of credit	(1,096,582)	1,620,000
Permanently restricted contributions	<u>508,897</u>	<u>179,624</u>
Net cash provided by (used in) financing activities	<u>(587,685)</u>	<u>1,799,624</u>
Net increase (decrease) in cash	(1,667,491)	836,940
Cash at beginning of year	<u>1,941,518</u>	<u>1,104,578</u>
Cash at end of year	<u>\$ 274,027</u>	<u>\$ 1,941,518</u>
Supplemental disclosure of cash flow information		
Interest paid (including capitalized interest of \$57,970 in 2003)	\$ 50,098	\$ 57,970
Capital purchases included in accounts payable	-	777,000

The accompanying notes are an integral part of these financial statements.

The Boys and Girls Clubs of Boston, Inc.

Statement of Functional Expenses

Year Ended June 30, 2004 (with comparative amounts for the year ended June 30, 2003)

	Salaries and Wages	Payroll Taxes and Fringe Benefits	Other Expenses	Total Operating Expenses 2004	Total Operating Expenses 2003
Programs (direct expenses)					
Arts	\$ 215,471	\$ 56,731	\$ 26,396	\$ 298,598	\$ 271,449
Education	284,163	70,910	132,413	487,486	557,861
Leadership and character development	132,423	39,980	45,529	217,932	253,354
Life skills	484,701	123,978	36,011	644,690	651,084
Sports, fitness, recreation	554,506	148,430	60,259	763,195	850,563
Technology	237,140	61,025	135,704	433,869	453,198
Supplemental summer programs	110,502	23,473	92,231	226,206	309,707
School age child care	214,938	51,951	70,608	337,497	316,460
Member services	226,069	61,189	157,264	444,522	526,852
Partnerships	1,403,254	296,420	261,029	1,960,703	1,946,099
Programs (support expenses)					
Facility maintenance, insurance and utilities	221,786	60,541	924,898	1,207,225	1,151,850
Program management and administration	695,915	145,118	206,802	1,047,835	963,874
Program development and staff support	298,302	55,921	107,637	461,860	398,943
Depreciation	-	-	1,004,647	1,004,647	875,597
Total program expenses, including depreciation expense	5,079,170	1,195,667	3,261,428	9,536,265	9,526,891
Management and general	480,486	52,479	588,578	1,121,543 *	1,081,359
Depreciation, management and general	-	-	23,820	23,820	13,358
Fundraising	781,660	163,980	1,020,316	1,965,956	1,816,004
Total operating expenses	\$ 6,341,316	\$ 1,412,126	\$ 4,894,142	\$ 12,647,584	\$ 12,437,612

* Includes 2004 one-time pension consulting and Julie's Family Learning Program, Inc. (Note 11) legal and actuarial costs for analysis of contemplated transactions of \$16,155 and \$56,300, respectively. Total management and general expenses excluding these costs were \$1,099,088 for 2004.

The accompanying notes are an integral part of these financial statements.

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2004 and 2003

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. 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 transfers in the statement of changes in net assets.

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2004 and 2003

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.

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 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 total cost 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.

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 2004 and 2003, the board voted to transfer 7% of the accumulated appreciation on endowment assets to the unrestricted fund. These funds, which amounted to \$77,990 and \$62,000 for the years ended June 30, 2004 and 2003, respectively, were utilized for salary costs.

Operating Activities

Changes in unrestricted net assets are classified as either operating activities or nonoperating activities. Nonoperating 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 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 rolling average of the long-term investments balances, which amounted to \$213,690 and \$208,968 for the years ended June 30, 2004 and 2003, respectively, to be utilized for operations.

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2004 and 2003

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.

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.

Concentration of Credit Risk

The Organization receives a significant portion of its revenues from federal and state governmental agencies and the United Way of Massachusetts Bay. Financial instruments which potentially subject the Organization to concentration of credit risk consist principally of investments. However, this risk is mitigated by the fact that the investments are held in custody by what management believes are high quality financial institutions. Investments are primarily held in equity and fixed income securities.

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.

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
June 30, 2004 and 2003

3. Pledges Receivable

Unconditional gifts at June 30, 2004 and 2003 are expected to be realized in the following periods:

	2004	2003
In one year or less	\$ 1,182,428	\$ 3,219,994
Between one and five years	7,551,215	2,925,416
Greater than five years	6,664	28,331
	<u>8,740,307</u>	<u>6,173,741</u>
Less		
Allowance for uncollectible pledges	84,836	100,387
Discount to present value	225,754	154,374
	<u>\$ 8,429,717</u>	<u>\$ 5,918,980</u>

4. Temporarily Restricted Net Assets

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

	2004	2003
Teen Programs	\$ 14,510	\$ 36,527
Technology programs	13,525	446,689
Education programs	106,999	123,788
Other specific and general activities of the Organization	882,084	631,116
Scholarships	222,270	215,821
Annual Fund/Fund for the Future	4,634,852	2,942,494
Chelsea Clubhouse Campaign	40,795	260,394
Green Street Clubhouse Campaign	207,614	742,969
Julies Family Learning Program - Building Fund	617,613	1,054,747
Accumulated realized and unrealized gains and losses on permanently restricted net assets	1,335,672	1,004,209
	<u>\$ 8,075,934</u>	<u>\$ 7,458,754</u>

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:

	2004	2003
Specific activities of the Organization	\$ 1,374,047	\$ 1,135,386
General activities of the Organization	2,864,960	1,027,244
	<u>\$ 4,239,007</u>	<u>\$ 2,162,630</u>

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2004 and 2003

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, 2004 and 2003 are as follows:

	2004	2003
Teen Programs	\$ 25,020	\$ 160,207
Technology programs	459,730	481,604
Education programs	109,315	320,392
Social worker programs	-	389,707
Other specific and general activities of the Organization	859,193	320,583
Scholarships	24,700	42,500
Annual Fund/Fund for the Future	2,100,183	2,021,420
Chelsea Clubhouse Campaign	250,000	524,856
Green Street Clubhouse Campaign	707,332	4,466,486
Julies Family Learning Program - Building Fund	1,185,197	89,117
Accumulated realized and unrealized gains and losses on permanently restricted net assets	77,990	62,020
Total restrictions released	<u>\$ 5,798,660</u>	<u>\$ 8,878,892</u>

7. Investments

Investments consisted of the following at June 30:

	2004 Market Value	2003 Market Value
Investments		
Cash and cash equivalents	\$ 1,535,151	\$ 3,186,197
Mutual funds	5,875,283	4,707,514
Bonds	900	900
	<u>\$ 7,411,334</u>	<u>\$ 7,894,611</u>

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2004 and 2003

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 a bank's mutual funds, including a money market, common stock and bond fund. The Organization's policy is to fund pension costs as accrued. The following sets forth information with respect to these benefits at June 30, 2004 and 2003 and for the years then ended:

	2004	2003
Components of Net Periodic Benefit Cost		
Service cost	\$ 235,200	\$ 182,764
Interest cost	127,584	102,590
Return on plan assets	(36,369)	28,520
Amortization of		
Transition asset	(3,732)	(7,181)
Actuarial loss	103,371	59,709
Deferred asset loss	(49,948)	(86,773)
Net periodic benefit cost	<u>\$ 376,106</u>	<u>\$ 279,629</u>
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 2,102,394	\$ 1,167,612
Service cost	235,200	182,764
Interest cost	127,584	102,590
Actuarial loss	(17,734)	749,168
Benefits paid	(301,058)	(99,740)
Benefit obligation at end of year	<u>\$ 2,146,386</u>	<u>\$ 2,102,394</u>
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ 713,168	\$ 478,279
Actual return on plan assets	36,369	(28,520)
Employer contribution	664,858	363,149
Benefits paid	(301,058)	(99,740)
Fair value of plan assets at end of year	<u>\$ 1,113,337</u>	<u>\$ 713,168</u>
Funded status	\$ (1,033,049)	\$ (1,389,226)
Unrecognized actuarial loss	1,297,180	1,368,337
Unrecognized portion of net (asset) obligation at transition	-	(3,732)
Additional minimum liability	(703,042)	(835,122)
Net amount recognized	<u>\$ (438,911)</u>	<u>\$ (859,743)</u>
Accrued pension cost recognized as accrued expenses in the statement of financial position	(438,911)	(859,743)

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2004 and 2003

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

2005	\$ 91,000
2006	142,000
2007	212,000
2008	2,000
2009	15,000
2010-2014 (aggregate)	780,000

The assumptions used to determine the net periodic benefit cost and the benefit obligation as of June 30, 2004 and 2003 and for the years then ended are as follows:

	2004	2003
Used to determine net periodic pension cost		
Discount rate	6.50%	7.50%
Rate of compensation increase	3.00%	3.00%
Expected long-term return on plan assets	8.50%	8.50%

	As of June 30,	
	2004	2003
Used to determine benefit obligations		
Discount rate	6.25%	6.50%
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:

	2004	2003
Equity securities	60%	60%
Debt securities	40%	40%
	<u>100%</u>	<u>100%</u>

The Organization expects to make contributions to the Plan of \$469,349 during the year ended June 30, 2005.

At June 30, 2004 and 2003, the Plan had an accumulated benefit obligation of \$1,552,248 and \$1,572,911, respectively, compared to Plan Assets of \$1,113,337 and \$713,168, respectively. Accordingly, an adjustment to the additional minimum pension liability of \$132,080 and \$720,975 was recorded during the years ended June 30, 2004 and 2003, respectively.

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2004 and 2003

9. Lines of Credit

At June 30, 2004, the Organization may, at its option, borrow against two lines of credit, payable on demand.

Under one line of credit, interest is payable at the prime rate, 4.25% at June 30, 2004. The maximum amount available under the line of credit is \$4,000,000 and it expires on December 1, 2004, 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 outstanding under this line at June 30, 2004.

Under the second line of credit, interest is payable based on LIBOR, 1.37% at June 30, 2004, plus two percent. The maximum amount available under the line of credit is \$3,000,000 and it expires on December 6, 2004, 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 \$525,000 outstanding under this line at June 30, 2004.

Under the terms of the agreements, if there are any borrowings, the most restrictive covenants require the Organization to maintain certain minimum financial ratios.

Interest expense, net of amounts capitalized of \$0 and \$57,970, was \$50,098 and \$0 for the years ended June 30, 2004 and 2003, respectively.

10. Land, Buildings and Equipment

	2004	2003
Land	\$ 160,324	\$ 160,324
Buildings and improvements	27,751,227	26,085,432
Equipment, furniture and fixtures	1,360,708	1,220,711
	<u>29,272,259</u>	<u>27,466,467</u>
Less: Accumulated depreciation	8,332,962	7,304,545
	<u>\$ 20,939,297</u>	<u>\$ 20,161,922</u>

Depreciation expense amounted to \$1,028,467 and \$888,955 for the years ended June 30, 2004 and 2003, respectively.

11. Subsequent Event

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.

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2004 and 2003

During the previous year, 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 in 2003, and was granted 501(c)(3) status by the IRS in late 2003. 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., subject to final review and settlement with JFLP, Inc., and audit review by both organizations:

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	
Fund balance	617,603
Building plant fund	<u>1,053,981</u>
Total equity and liabilities	<u>\$ 1,702,280</u>

During fiscal year 2004 JFLP had revenues of \$1,930,244 and expenses of \$917,514. It also had new fixed asset purchases of \$1,012,730, reflecting construction begun on a new facility renovation. All contracts and obligations relating to the renovation of a new facility for JFLP were engaged, committed and owned by JFLP, Inc.