

**The Boys and Girls
Clubs of Boston, Inc.**
Financial Statements
June 30, 2005 and 2004

The Boys and Girls Clubs of Boston, Inc.

Index

June 30, 2005 and 2004

	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, 2005 and 2004 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. Those standards 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.

October 11, 2005

The Boys and Girls Clubs of Boston, Inc.
Statements of Financial Position
June 30, 2005 and 2004

	2005	2004
Assets		
Cash and cash equivalents	\$ 598,336	\$ 274,027
Reimbursable program grant expenditures	415,167	190,567
Prepaid expenses and other assets	167,191	173,273
Pledges receivable (Notes 3 and 13)	17,002,200	7,891,872
Investments, at market (Note 7)	10,230,549	7,300,880
Land, buildings and equipment, at cost, net of depreciation (Note 10)	19,381,855	19,885,316
Assets for discontinued operations (Note 13)	-	1,702,280
Total assets	<u>\$ 47,795,298</u>	<u>\$ 37,418,215</u>
Liabilities and Net Assets		
Accounts payable	\$ 451,103	\$ 413,261
Accrued expenses (Note 8)	855,672	493,706
Line of credit (Note 9)	1,075,000	525,000
Deferred revenue	160,783	138,957
Liabilities for discontinued operations (Note 13)	-	30,696
Total liabilities	<u>2,542,558</u>	<u>1,601,620</u>
Net assets		
Unrestricted		
Board designated	1,154,338	1,154,338
Plant fund	19,381,855	19,885,316
Operating	572,968	1,408,019
Net assets for discontinued operations (Note 13)	-	1,053,981
	<u>21,109,161</u>	<u>23,501,654</u>
Temporarily restricted		
Temporarily restricted (Notes 4 and 6)	16,335,032	7,458,331
Net assets for discontinued operations (Note 13)	-	617,603
	<u>16,335,032</u>	<u>8,075,934</u>
Permanently restricted (Note 5)		
	<u>7,808,547</u>	<u>4,239,007</u>
Total net assets	<u>45,252,740</u>	<u>35,816,595</u>
Total liabilities and net assets	<u>\$ 47,795,298</u>	<u>\$ 37,418,215</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, 2005 and 2004

	2005	2004
Operating revenues		
United Way contributions	\$ 1,080,460	\$ 961,415
Contributions and benefits	3,079,501	3,602,624
Grants from governmental agencies	1,134,382	824,203
Investment income on long-term investments designated by the Board for operations	239,485	213,690
Community events	146,931	84,773
Parent fees and vouchers	345,985	372,123
Member dues and camp fees	268,978	264,321
Rental of facilities	147,153	157,460
Service and other income	231,002	250,070
Net assets released from restrictions for operations and satisfaction of program restrictions (Note 6)	4,335,425	3,923,001
Contributed gifts-in-kind (Note 12)	260,881	73,708
Total operating revenues	11,270,183	10,727,388
Operating expenses		
Program expenses		
Arts	313,701	298,598
Education	501,299	487,486
Leadership and character development	249,034	217,932
Life skills	624,368	644,690
Sports, fitness, recreation	725,596	763,195
Technology	468,483	417,925
Summer programs	273,184	226,206
School age child care	324,008	337,497
Member services	394,771	444,522
Youth Service Providers Network	748,850	614,338
Community Learning Center - site extensions	318,951	341,469
Facility maintenance, insurance and utilities	1,460,492	1,201,429
Program management and administration	1,129,708	1,047,835
Program development and staff support	500,137	549,242
Total program expenses	8,032,582	7,592,364
Management and general	1,247,078	1,143,283
Fundraising	1,943,403	1,965,956
Total operating expenses	11,223,063	10,701,603
Income from operations before depreciation expense	47,120	25,785
Depreciation expense	1,107,751	1,028,467
Loss from operations	(1,060,631)	(1,002,682)
Nonoperating (losses)		
Interest and dividend income	135,286	128,996
Investment expenses	(26,061)	(48,515)
Investment income on long-term investments designated by the Board for operations (Note 1)	(239,485)	(213,690)
Net realized gains on investments	8,416	9,912
Net unrealized gains on investments	84,783	308,221
Net assets released from restrictions for acquisition of land, buildings, and equipment (Note 6)	285,402	617,347
Comprehensive campaign expenses	(72,139)	-
Transfer of net assets from discontinued operations (Note 13)	(1,053,981)	-
Net income from discontinued operations (Note 13)	-	1,012,730
Pension settlement expenses (Note 8)	(314,144)	-
Additional minimum pension liability (Note 8)	(139,939)	132,080
Nonoperating (losses) gains, net	(1,331,862)	1,947,081
(Decrease) increase in unrestricted net assets	\$ (2,392,493)	\$ 944,399

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, 2005 and 2004

	2005	2004
(Decrease) increase in unrestricted net assets	<u>\$ (2,392,493)</u>	<u>\$ 944,399</u>
Temporarily restricted net assets		
Contributions	13,131,433	5,898,439
Interest and dividend income on temporarily and permanently restricted net assets	13,245	95,645
Net realized (losses) gains on permanently restricted net assets	(11,070)	12,056
Net unrealized gains on permanently restricted net assets	364,542	409,700
Net assets released from restrictions (Note 6)	(4,620,827)	(4,785,930)
Change in income from discontinued operations (Note 13)	-	(1,012,730)
Transfer of net assets from discontinued operations (Note 13)	<u>(618,224)</u>	<u>-</u>
Increase in temporarily restricted net assets	<u>8,259,099</u>	<u>617,180</u>
Permanently restricted net assets		
Contributions	<u>3,569,540</u>	<u>2,076,377</u>
Increase in permanently restricted net assets	<u>3,569,540</u>	<u>2,076,377</u>
Change in net assets	9,436,145	3,637,956
Net assets at beginning of year	<u>35,816,595</u>	<u>32,178,639</u>
Net assets at end of year	<u>\$ 45,252,740</u>	<u>\$ 35,816,595</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, 2005 and 2004

	2005	2004
Cash flows from operating activities		
Change in net assets	\$ 9,436,145	\$ 3,637,956
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,107,751	1,028,467
Discontinued operations	1,672,205	-
Net realized and unrealized (gains) on investments	(446,671)	(739,889)
Contributions received for long-term use	(2,711,582)	(508,897)
Changes in assets and liabilities		
Pledges receivable	(9,110,328)	(2,510,737)
Reimbursable program grant expenditures	(224,600)	93,562
Prepaid expenses and other assets	6,082	(101,870)
Accounts payable	(180,958)	(1,037,981)
Accrued expenses	361,966	(397,486)
Deferred revenue	21,826	39,745
Net cash (used in) operating activities	<u>(68,164)</u>	<u>(497,130)</u>
Cash flows from investing activities		
Building improvements	(241,201)	(1,665,795)
Purchase of equipment	(144,289)	(140,047)
Proceeds from sale of investments	2,551,552	6,614,438
Purchase of investments	(5,145,625)	(5,391,272)
Net cash used in investing activities	<u>(2,979,563)</u>	<u>(582,676)</u>
Cash flows from financing activities		
Net borrowings under line of credit	550,000	(1,096,582)
Contributions received for long-term use	2,711,582	508,897
Transfer of net assets from discontinued operations	110,454	-
Net cash provided by (used in) financing activities	<u>3,372,036</u>	<u>(587,685)</u>
Net increase (decrease) in cash	324,309	(1,667,491)
Cash at beginning of year	274,027	1,941,518
Cash at end of year	<u>\$ 598,336</u>	<u>\$ 274,027</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 87,536	\$ 50,098
Building improvements included in accounts payable	218,800	-

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

The Boys and Girls Clubs of Boston, Inc.
Statements of Functional Expenses
Year Ended June 30, 2005 (with comparative amounts for the year ended June 30, 2004)

	Salaries and Wages	Payroll Taxes and Fringe Benefits	Other Expenses	Total Operating Expenses	
				2005	2004
Programs (direct expenses)					
Arts	\$ 230,953	\$ 55,088	\$ 27,660	\$ 313,701	\$ 298,598
Education	265,299	63,031	172,969	501,299	487,486
Leadership and character development	137,357	32,871	78,806	249,034	217,932
Life skills	461,318	109,936	53,114	624,368	644,690
Sports, fitness, recreation	525,593	127,090	72,913	725,596	763,195
Technology	231,102	54,756	182,625	468,483	417,925
Summer programs	141,758	34,123	97,303	273,184	226,206
School age child care	196,632	46,825	80,551	324,008	337,497
Member services	237,851	57,015	99,905	394,771	444,522
Youth Service Providers Network	545,177	129,241	74,432	748,850	614,338
Community Learning Center - site extensions	243,381	58,480	17,090	318,951	341,469
Programs (support expenses)					
Facility maintenance, insurance and utilities	267,812	63,961	1,128,719	1,460,492	1,201,429
Program management and administration	734,911	174,261	220,536	1,129,708	1,047,835
Program development and staff support	245,180	59,564	195,393	500,137	549,242
Depreciation	-	-	1,083,767	1,083,767	1,004,647
Total program expenses, including depreciation expense	4,464,324	1,066,242	3,585,783	9,116,349	8,597,011
Management and general	513,914	98,455	634,709	1,247,078	1,143,283
Depreciation, management and general	-	-	23,984	23,984	23,820
Fundraising	950,971	205,172	787,260	1,943,403	1,965,956
Total operating expenses	<u>\$ 5,929,209</u>	<u>\$ 1,369,869</u>	<u>\$ 5,031,736</u>	<u>\$ 12,330,814</u>	<u>\$ 11,730,070</u>

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, 2005 and 2004

1. Summary of Significant Accounting Policies

Basis of Presentation

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

Net Assets

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

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

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

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

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

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

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

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

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2005 and 2004

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 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. Management has relied upon the information provided by external investment managers. These investments are not readily marketable. The estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed. Such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements. The Organization believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2005 and 2004.

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 2005 and 2004, the board voted to transfer 7% of the accumulated appreciation on endowment assets to the unrestricted fund. These funds, which amounted to \$98,045 and \$77,990 for the years ended June 30, 2005 and 2004, respectively, were utilized for salary costs.

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2005 and 2004

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, comprehensive campaign expenses and changes in additional minimum pension liabilities recorded. All other activities that are deemed by management to be ongoing, major and central to operations are reported as operating revenues and expenses. In addition, the Board of Directors of the Organization designates a portion of unrestricted investment income, based on spending guidelines of 4.5% of a three-year quarterly rolling average of the long-term investments balances, which amounted to \$239,485 and \$213,690 for the years ended June 30, 2005 and 2004, respectively, to be 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.

Deferred Revenue

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

Functional Allocation of Expenses

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

Use of Estimates

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

Reclassification

Certain reclassifications have been made to the 2004 financial statements in order to conform to the 2005 presentation.

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2005 and 2004

Commitments and Contingencies

The Organization is subject to claims which have risen in the normal course of business. The likely outcome of these claims are unknown; accordingly no reserves have been made for the potential settlements of these claims. Management believes it has adequate insurance to cover these claims.

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.

3. Pledges Receivable

Unconditional gifts at June 30, 2005 and 2004 are expected to be realized in the following periods:

	2005	2004
In one year or less	\$ 5,867,722	\$ 1,182,428
Between one and five years	12,014,078	7,013,370
Greater than five years	452,400	6,664
	<u>18,334,200</u>	<u>8,202,462</u>
Less		
Allowance for uncollectible pledges	185,000	84,836
Discount to present value	1,147,000	225,754
	<u>\$ 17,002,200</u>	<u>\$ 7,891,872</u>

4. Temporarily Restricted Net Assets

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

	2005	2004
Teen Programs	\$ 60,530	\$ 14,510
Technology programs	7,556	13,525
Education programs	353,372	106,999
Social worker programs	187,014	-
Other specific activities of the Organization	816,870	882,094
Scholarships	220,147	222,270
Comprehensive Campaign		
Annual Fund	11,164,559	4,634,852
Roxbury Facility Campaign	1,665,580	-
Chelsea Facility Campaign	60,925	40,795
Green Street Facility Campaign	207,380	207,614
Transfer of net assets from discontinued operations - building fund	-	617,603
Accumulated realized and unrealized net gains on permanently restricted net assets	1,591,099	1,335,672
	<u>\$ 16,335,032</u>	<u>\$ 8,075,934</u>

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2005 and 2004

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:

	2005	2004
Specific activities of the Organization	\$ 1,486,916	\$ 1,374,047
General activities of the Organization	6,321,631	2,864,960
	<u>\$ 7,808,547</u>	<u>\$ 4,239,007</u>

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, 2005 and 2004 are as follows:

	2005	2004
Teen Programs	\$ 99,980	\$ 25,020
Technology programs	41,079	459,730
Education programs	300,953	109,315
Social worker programs	160,089	-
Other specific activities of the Organization	605,539	859,193
Scholarships	62,638	24,700
Comprehensive Campaign		
Annual Fund	2,536,074	2,100,183
Roxbury Facility Campaign	439,420	-
Chelsea Facility Campaign	256,527	250,000
Green Street Facility Campaign	20,483	707,332
Julies Family Learning Program - Building Fund	-	1,185,197
Accumulated realized and unrealized gains and (losses) on permanently restricted net assets	98,045	77,990
	<u>\$ 4,620,827</u>	<u>\$ 5,798,660</u>

7. Investments

Investments consisted of the following at June 30:

	2005	2004
	Market Value	Market Value
Investments		
Cash and cash equivalents	\$ 2,558,174	\$ 1,978,326
Fixed income	1,907,622	1,319,679
Equity	3,701,332	2,780,761
Alternative investments	2,063,421	1,222,114
	<u>\$ 10,230,549</u>	<u>\$ 7,300,880</u>

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2005 and 2004

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 the measurement dates of June 30, 2005 and 2004 and for the years then ended:

	2005	2004
Components of Net Periodic Benefit Cost		
Service cost	\$ 207,466	\$ 235,200
Interest cost	128,676	127,584
Loss (return) on plan assets	9,107	(36,369)
Amortization of		
Transition asset	-	(3,732)
Actuarial loss	100,646	103,371
Deferred asset loss	(113,258)	(49,948)
Net periodic benefit cost	<u>\$ 332,637</u>	<u>\$ 376,106</u>
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 2,146,386	\$ 2,102,394
Service cost	207,466	235,200
Interest cost	128,676	127,584
Actuarial loss (gain)	625,936	(17,734)
Impact of settlement accounting	(155,948)	-
Benefits paid	(526,127)	(301,058)
Benefit obligation at end of year	<u>\$ 2,426,389</u>	<u>\$ 2,146,386</u>
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ 1,113,337	\$ 713,168
Actual return on plan assets	(9,107)	36,369
Employer contribution	469,349	664,858
Benefits paid	(526,127)	(301,058)
Fair value of plan assets at end of year	<u>\$ 1,047,452</u>	<u>\$ 1,113,337</u>
Funded status	\$ (1,378,937)	\$ (1,033,049)
Unrecognized actuarial loss	1,465,636	1,297,180
Additional minimum liability	(842,981)	(703,042)
Net amount recognized	<u>\$ (756,282)</u>	<u>\$ (438,911)</u>
Accrued pension cost recognized as accrued expenses in the statement of financial position	\$ (756,282)	\$ (438,911)

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

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2005 and 2004

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

2006	\$ 198,000
2007	36,000
2008	51,000
2009	36,000
2010	36,000
2011-2015 (aggregate)	1,320,000

The assumptions used to determine the net periodic benefit cost and the benefit obligation as of June 30, 2005 and 2004 and for the years then ended are as follows:

	2005	2004
Used to determine net periodic benefit cost		
Discount rate	6.25%	6.50%
Rate of compensation increase	3.00%	3.00%
Expected long-term return on plan assets	7.50%	8.50%

	As of June 30,	
	2005	2004
Used to determine benefit obligations		
Discount rate	5.25%	6.25%
Rate of compensation increase	3.00%	3.00%

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

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

	2005	2004
Equity securities	61%	60%
Debt securities	39%	40%
	<u>100%</u>	<u>100%</u>

The Organization expects to make contributions to the Plan of \$551,783 during the year ended June 30, 2006.

At June 30, 2005 and 2004, the Plan had an accumulated benefit obligation of \$1,803,734 and \$1,552,248, respectively, compared to plan assets of \$1,047,452 and \$1,113,337, respectively. Accordingly, an (increase) decrease to the additional minimum pension liability of (\$139,939) and \$132,080 was recorded during the years ended June 30, 2005 and 2004, respectively.

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2005 and 2004

9. Lines of Credit

At June 30, 2005, the Organization may, at its option, borrow against two lines of credit, payable on demand.

Under the operating line of credit, interest is payable at the prime rate, 6.00% at June 30, 2005. The maximum amount available under the line of credit is \$4,000,000 and it expires on December 1, 2005, 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 \$775,000 outstanding under this line at June 30, 2005.

Under the capital line of credit, interest is payable based on LIBOR, 3.34% at June 30, 2005, plus two percent. The maximum amount available under the line of credit is \$3,000,000 and it expires on December 6, 2005, 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 \$300,000 outstanding under this line at June 30, 2005.

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 \$87,536 and \$50,098 for the years ended June 30, 2005 and 2004, respectively.

10. Land, Buildings and Equipment

	2005	2004
Land	\$ 160,324	\$ 160,324
Buildings and improvements	26,877,845	26,697,246
Construction in progress	279,402	-
Equipment, furniture and fixtures	1,504,997	1,360,708
	<u>28,822,568</u>	<u>28,218,278</u>
Less: Accumulated depreciation	9,440,713	8,332,962
	<u>\$ 19,381,855</u>	<u>\$ 19,885,316</u>

Depreciation expense amounted to \$1,107,751 and \$1,028,467 for the years ended June 30, 2005 and 2004, respectively.

11. Related Party Transaction

Certain members of the Organization's board of trustees provide various professional and consulting services, as well as office rental space to the Organization. Total payments under these arrangements were \$308,132 and \$298,267 for the years ended June 30, 2005 and 2004, respectively.

The Boys and Girls Clubs of Boston, Inc.
Notes to Financial Statements
June 30, 2005 and 2004

12. Contributed Gifts-in-Kind

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

13. Discontinued Operations

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

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

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

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

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