

The Boys and Girls Clubs of Boston, Inc.

Financial Report
June 30, 2018

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RSM US LLP

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Boys and Girls Clubs of Boston, Inc. (the "Organization") which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Boston, Massachusetts
November 14, 2018

The Boys and Girls Clubs of Boston, Inc.

Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 3,837,595	\$ 5,943,509
Reimbursable program grant expenditures	364,524	720,884
Other receivables	1,472,142	209,755
Prepaid expenses and other assets	691,460	387,702
Pledges receivable, net	6,342,953	9,694,095
Beneficial interest in charitable trusts	1,262,405	1,045,339
Restricted cash and cash equivalents	3,223,072	1,994,166
Long-term investments	63,037,996	55,100,988
Land, buildings and equipment, net	31,735,575	33,270,415
	\$ 111,967,722	\$ 108,366,853
Liabilities and Net Assets		
Accounts payable	\$ 546,132	\$ 377,503
Accrued expenses	1,289,191	1,208,725
Deferred revenue	409,621	340,561
Total liabilities	2,244,944	1,926,789
Net assets:		
Unrestricted	33,656,328	34,427,870
Temporarily restricted	25,172,088	23,924,016
Permanently restricted	50,894,362	48,088,178
Total net assets	109,722,778	106,440,064
	\$ 111,967,722	\$ 108,366,853

See notes to financial statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Activities
Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating activities:								
Revenues, gains and other support:								
United Way contributions	\$ 521,649	\$ -	\$ -	\$ 521,649	\$ 573,683	\$ -	\$ -	\$ 573,683
Contributions	12,122,302	4,725,258	-	16,847,560	10,780,395	6,313,380	-	17,093,775
Grants, vouchers and contracts from governmental agencies	1,756,198	-	-	1,756,198	2,009,839	-	-	2,009,839
Parent fees, member dues, and club camp fees	656,737	-	-	656,737	691,333	-	-	691,333
Gifts-in-kind	435,629	-	-	435,629	341,693	-	-	341,693
Service and other income	272,274	-	-	272,274	1,927,152	-	-	1,927,152
Appropriation of investment income on long-term investments	2,208,000	-	-	2,208,000	2,028,000	-	-	2,028,000
Net assets released from restrictions	6,926,019	(6,926,019)	-	-	6,681,964	(6,681,964)	-	-
Total revenues, gains and other support	24,898,808	(2,200,761)	-	22,698,047	25,034,059	(368,584)	-	24,665,475
Operating expenses:								
Program services	17,477,399	-	-	17,477,399	18,500,680	-	-	18,500,680
Management and general	2,255,237	-	-	2,255,237	2,185,439	-	-	2,185,439
Fundraising	3,970,983	-	-	3,970,983	3,692,568	-	-	3,692,568
Total operating expenses before depreciation	23,703,619	-	-	23,703,619	24,378,687	-	-	24,378,687
Income (loss) from operations before depreciation	1,195,189	(2,200,761)	-	(1,005,572)	655,372	(368,584)	-	286,788
Depreciation expense	2,168,544	-	-	2,168,544	2,171,935	-	-	2,171,935
Loss from operations	(973,355)	(2,200,761)	-	(3,174,116)	(1,516,563)	(368,584)	-	(1,885,147)
Non-operating activities:								
Contributions restricted for long term purposes	-	550,000	2,781,727	3,331,727	-	-	3,603,006	3,603,006
Net assets released from restrictions (long term purposes)	25,683	(25,683)	-	-	876,075	(876,075)	-	-
Change in donor intent	-	-	-	-	-	(838,492)	838,492	-
Appropriation of investment income on long-term investments	(184,709)	(2,023,291)	-	(2,208,000)	(179,779)	(1,848,221)	-	(2,028,000)
Interest and dividend income	228,923	1,061,087	-	1,290,010	112,976	814,648	-	927,624
Investment expense	(2,263)	(59,206)	-	(61,469)	(2,846)	(51,752)	-	(54,598)
Net realized and unrealized gains (losses) on investments	151,879	3,727,634	-	3,879,513	283,275	5,294,715	-	5,577,990
Change in split interest agreements	-	218,292	24,457	242,749	-	58,849	37,382	96,231
Capital grants	68,517	-	-	68,517	160,700	-	-	160,700
Comprehensive campaign expenses	(84,947)	-	-	(84,947)	(88,543)	-	-	(88,543)
Rental expense for former lease	-	-	-	-	(265,000)	-	-	(265,000)
Loss on disposal of buildings and equipment	(1,270)	-	-	(1,270)	-	-	-	-
Pension liability adjustment	-	-	-	-	53,475	-	-	53,475
Non-operating gains	201,813	3,448,833	2,806,184	6,456,830	950,333	2,553,672	4,478,880	7,982,885
Change in net assets	(771,542)	1,248,072	2,806,184	3,282,714	(566,230)	2,185,088	4,478,880	6,097,738
Net assets, beginning of year	34,427,870	23,924,016	48,088,178	106,440,064	34,994,100	21,738,928	43,609,298	100,342,326
Net assets, end of year	\$ 33,656,328	\$ 25,172,088	\$ 50,894,362	\$ 109,722,778	\$ 34,427,870	\$ 23,924,016	\$ 48,088,178	\$ 106,440,064

See notes to financial statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Functional Expenses
Years Ended June 30, 2018 and 2017

	2018				2017			
	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	\$ 643,072	\$ 156,420	\$ 45,381	\$ 844,873	\$ 562,099	\$ 109,847	\$ 54,430	\$ 726,376
Education	642,865	155,020	342,851	1,140,736	486,507	105,699	313,297	905,503
Leadership and character development	212,241	25,910	92,723	330,874	223,792	21,354	141,082	386,228
Life skills	1,203,745	294,132	712,275	2,210,152	1,177,730	278,671	688,266	2,144,667
Sports, fitness, recreation	975,916	236,574	192,664	1,405,154	956,705	196,946	210,664	1,364,315
Technology	253,495	66,163	23,077	342,735	227,589	63,798	27,013	318,400
Summer programs	158,705	24,162	179,234	362,101	189,656	18,342	191,250	399,248
School age child care	378,114	90,993	62,172	531,279	407,614	77,005	71,693	556,312
Member services	501,685	123,327	273,670	898,682	452,520	101,426	467,924	1,021,870
YouthConnect	874,620	213,698	144,970	1,233,288	842,998	221,558	181,101	1,245,657
Shared space and dedicated site clubs	1,100,479	247,532	626,545	1,974,556	1,115,463	205,595	608,547	1,929,605
Camp Harbor View	-	-	-	-	1,001,762	152,263	329,527	1,483,552
Programs (support expenses):								
Facility maintenance, insurance and utilities	334,214	81,670	1,554,769	1,970,653	335,025	84,007	1,487,463	1,906,495
Program management and administration	1,431,997	364,638	333,257	2,129,892	1,490,248	418,478	338,880	2,247,606
Program development and staff support	1,139,295	271,183	691,946	2,102,424	1,157,649	283,692	423,505	1,864,846
Depreciation	-	-	2,070,636	2,070,636	-	-	2,091,650	2,091,650
Total program expenses, including depreciation expense	9,850,443	2,351,422	7,346,170	19,548,035	10,627,357	2,338,681	7,626,292	20,592,330
Management and general	965,072	213,728	1,076,437	2,255,237	902,904	215,046	1,067,489	2,185,439
Depreciation, management and general	-	-	97,908	97,908	-	-	80,285	80,285
Fundraising	1,794,334	413,520	1,763,129	3,970,983	1,696,029	376,986	1,619,553	3,692,568
Total operating expenses and depreciation expenses	\$ 12,609,849	\$ 2,978,670	\$ 10,283,644	\$ 25,872,163	\$ 13,226,290	\$ 2,930,713	\$ 10,393,619	\$ 26,550,622

See notes to financial statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 3,282,714	\$ 6,097,738
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,168,544	2,171,935
Change in allowance	36,485	(1,300,255)
Change in discount	54,000	(201,130)
Net realized and unrealized gains on investments	(3,879,513)	(5,577,990)
Loss on disposal of buildings and equipment	1,270	-
Distribution from beneficial interest in charitable trusts	25,683	876,075
Contributed property and equipment	(35,000)	-
Contributions received for long-term use	(3,316,171)	(2,719,842)
Change in split interest agreements	(242,749)	(96,231)
Donated securities	(196,695)	(1,628,476)
Proceeds from sale of donated securities	181,139	745,312
Changes in operating assets and liabilities:		
Pledges receivable (net of discount and allowance)	3,260,657	3,964,011
Reimbursable program grant expenditures	356,360	(417,957)
Other receivables	(1,262,387)	2,123,703
Prepaid expenses and other assets	(303,758)	44,395
Accounts payable	168,629	(137,966)
Accrued expenses	80,466	310,933
Pension liability	-	(4,142,988)
Deferred revenue	69,060	(62,432)
Total adjustments	(2,833,980)	(6,048,903)
Net cash provided by operating activities	448,734	48,835
Cash flows from investing activities:		
Purchase of building improvements and equipment	(599,974)	(602,471)
Proceeds from sale of investments	19,377,285	8,203,647
Purchase of investments	(23,434,780)	(9,466,650)
Net cash used in investing activities	(4,657,469)	(1,865,474)
Cash flows from financing activities:		
Contributions received for long-term use	3,316,171	2,719,842
Proceeds from sale of donated securities	15,556	883,164
Net cash provided by financing activities	3,331,727	3,603,006
Net change in cash and cash equivalents	(877,008)	1,786,367
Cash and cash equivalents and restricted cash:		
Beginning of year	7,937,675	6,151,308
End of year	\$ 7,060,667	\$ 7,937,675

See notes to financial statements.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of organization: The mission of The Boys and Girls Clubs of Boston, Inc. (the "Organization") is to help young people, especially those who need us most, build strong character and realize their full potential as responsible citizens and leaders. The Organization does this by providing a safe haven filled with hope and opportunity, ongoing relationships with caring adults and life-enhancing programs.

Basis of presentation: The Organization's financial statements have been prepared on the accrual basis of accounting and in accordance with accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB defines generally accepted accounting principles ("U.S. GAAP") to ensure financial condition, results of operations, and cash flows are consistently reported. References to U.S. GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification ("FASB ASC").

Classification and reporting of net assets: The Organization follows FASB ASC 958, *Financial Statements of Not-For-Profit Organizations*. This standard 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 Massachusetts Uniform Prudent Institutional Funds Act ("UPMIFA").

UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. This standard also requires 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. A description of the three net asset classes follows:

- Unrestricted net assets represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for support of the Organization as well as funds invested in plant, including club buildings. In addition, unrestricted net assets of the Organization include funds which represent unrestricted resources designated by the Board of Directors ("the Board") for specific purposes.
- Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. Temporarily restricted net assets also include, under Massachusetts law, amounts, representing cumulative interest, dividends, appreciation and reinvested gains on permanently restricted endowment funds, which are subject to prudent appropriation by the Board in accordance with donor use restrictions and provisions of Massachusetts law but which have not yet been appropriated by the Board. 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 activities as net assets released from restrictions.
- Permanently restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by actions of the Organization pursuant to those stipulations. Permanently restricted net assets may also include realized and unrealized gains and interest and investment income on certain contributions, as stipulated by the donor.

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

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Organization recognizes revenue when there is persuasive evidence of an arrangement, services have been rendered, the fee is fixed or determinable, and collectability is reasonably assured. Amounts billed or collected prior to satisfying the Organization's revenue recognition policy are reflected as deferred revenue.

The programs of the Organization are, in part, supported by contracts negotiated with various agencies of the Commonwealth of Massachusetts. Therefore, the Organization is subject to the regulations and rate formulas of the Massachusetts Executive Office for Administration and Finance Operational Services Division.

Excess of revenue over expenses from Commonwealth of Massachusetts supported programs, up to certain defined limits, can be utilized by the Organization for expenditures in accordance with its exempt purpose, provided such expenditures are reimbursable under the Operational Services Division's regulations. Amounts in excess of these limits are subject to negotiated use or potential recoupment, and are reported as a liability. There are no such liabilities as of June 30, 2018 and 2017, respectively.

Membership dues, parent fees and club camp fees are recognized as earned over the applicable membership period or camp term. Service and other income are recognized when the related service is performed. In April 2017, the Organization ended its contract to operate Camp Harbor View, an independent summer camp. Revenue earned from the summer camp in the year ended June 30, 2017 totaled \$1,652,629 and direct expenses from the program totaled \$1,483,552.

Contributions: Contributions received, including unconditional pledges, are initially recognized at fair value as revenues in the period the donor's commitments are received. 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 using a discount rate commensurate with the risk involved, and net of an allowance for uncollectible amounts. Amortization of the discount is recorded as contribution revenue in the appropriate net asset class. Conditional promises to give are recorded when donor stipulations are substantially met.

The methodology for calculating the allowance for uncollectible pledges includes management's review of individually significant outstanding pledges, analysis of the aging of payment schedules for all outstanding pledges, as well as other factors, including current economic conditions. Pledges to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as contribution revenue in the appropriate net asset class.

The Organization follows the guidance of the FASB ASC 958-310-35 for subsequent measurement of unconditional promises to give if there are changes in the quantity or nature of promised assets. If the fair value of a contribution receivable decreases because of changes in the quantity or nature of assets expected to be received, the decrease is recognized in the period in which the expectation changes and the increased allowance is reported as an expense or loss in the net asset class in which the net assets are represented.

If the Organization receives updated information from a donor that a pledge is changed to a conditional pledge or intention to give, the Organization will write-off the remaining pledge in the period in which it is notified of such change. Additionally, 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 change in donor intent on the statement of activities. The Organization also receives intentions to give, which do not meet the criteria for recognition as pledges under U.S. GAAP. The amounts of these intentions to give at June 30, 2018 and 2017 are disclosed in Note 3.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

During the year ended June 30, 2018, the Organization modified its accounting policy to record contributions received with donor-imposed restrictions that are met in the same year as revenues of the unrestricted net asset class. Previously, the Organization's policy was to record contributions received with donor-imposed restrictions that were met in the same year as received were reported as revenues of the temporarily restricted net asset class. A reclassification to unrestricted net assets was then made to reflect the expiration of such restrictions.

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.

Donated goods and services: The Organization receives support in the form of donated services. Services meeting the criteria for recognition established in FASB ASC 958, *Financial Statements of Not-for-Profit Organizations*, performed by trained professionals for services that would have been purchased if not donated, are recorded at their estimated fair market values at the time the services are rendered and are reflected in the financial statements as both revenues and expenses. Donated goods are also recorded at their estimated fair market values at the time the goods are provided and are reflected in the financial statements as both revenues and expenses.

Investments: Investments in marketable securities, primarily mutual funds, are reported at fair value as established by major securities markets. Investments in nonmarketable investments (alternative investments) qualify to use the net asset value as a practical expedient in determining fair value and are reported at estimated fair value as reported by the respective investment manager. 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 Organization believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2018 and 2017.

The Organization utilizes a pooled investment fund basis of managing its investment portfolio. 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 net asset totals. Unless otherwise restricted by the donor or state law, investment income and net unrealized and realized gains (losses) are recorded as increases (decreases) in unrestricted net assets. When a donor restriction exists, investment income and net unrealized and realized gains (losses) are allocated based on the total balance of pooled investments applicable to the respective asset totals.

Investments, in general, 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 the statements of financial position and activities.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Board has interpreted UPMIFA, as adopted by the Commonwealth of Massachusetts, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the funds, the purposes of the Organization and the donor-restricted endowment funds, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Organization, and the investment policies of the Organization.

The Organization has adopted investment and spending policies for endowment assets which attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s), cumulative investment gains on such funds which have not yet been appropriated by the Board of Directors, as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets provide a real total return over the long term in excess of the spend policy, to support operations.

Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation. Actual returns in any given year may vary.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

As approved by its Finance Committee, the Organization has a policy of appropriating for distribution each year 4.5 to 5 percent of its endowment fund's average fair value over the prior 12 quarters through the preceding fiscal year-end. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at the total return less the spend policy. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Based on its spending policy, a portion of the Organization's cumulative net realized gains and net appreciation is allocated to operations in accordance with the Organization's investment policies and procedures. During the years ended June 30, 2018 and 2017, the Board approved the appropriation of \$2,208,000 and \$2,028,000, respectively.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Beneficial interest in charitable trusts: The Organization is the beneficiary of a number of charitable trusts (split interest agreements), which are included in beneficial interest in charitable trusts on the statement of financial position. The Organization initially recognizes a contribution as well as an interest in the underlying investment from which a specified amount or percentage of the fair value of the trusts' assets or income each year is currently being paid to the Organization (perpetual trust) or to the donor or named beneficiary (remainder trust). Actuarial methods are used to calculate that portion of the investment representing the present value of the liability to the donor and that portion representing the contribution.

For agreements and trust assets maintained by an outside trustee, the Organization includes in the beneficial interest in charitable trusts the value of the estimated future benefits to be received when the assets are distributed. Adjustments to reflect the changes in the fair value of the investments, revaluation of the present value of the estimated future payments to the donors and or donors' stated beneficiaries, and changes in actuarial assumptions during the term of the trust are made to the beneficial interest in charitable trusts account and are recognized as change in split interest agreements in their respective net asset classes on the statement of activities.

Operating activities: Changes in net assets are classified as either operating activities or non-operating activities. Non-operating activities include investment income (including interest and dividend income, net realized and unrealized gains and losses on investments), change in split interest agreements, investment expenses, funds released from temporarily restricted net assets to support long term purposes, capital grants, comprehensive campaign expenses, change in donor intent, loss on disposal of buildings and equipment, rent expense for former lease, and pension liability adjustment on terminated plan. All other activities that are deemed by management to be ongoing, major and central to operations are reported as operating revenues and expenses.

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.

The following table provides a reconciliation of cash and cash equivalents and restricted cash and cash equivalents reported within the statement of financial position that sum to the total of such amounts shown in the statement of cash flows as of June 30:

	2018	2017
Cash and cash equivalents	\$ 3,837,595	\$ 5,943,509
Restricted cash and cash equivalents	3,223,072	1,994,166
Total cash and cash equivalents and restricted cash	<u>\$ 7,060,667</u>	<u>\$ 7,937,675</u>

Restricted cash and cash equivalents: Restricted cash and cash equivalents include amounts that have been received from donors which are unspent and restricted for the purchase of building improvements and equipment or not yet invested in the endowment.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts receivable: Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables. Management determines the allowance for doubtful accounts by reviewing the age of the receivable and based on collection history. There was no allowance for doubtful accounts at June 30, 2018 or 2017. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as revenue when received.

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 over the estimated useful lives of the respective assets. The following are the estimated useful lives:

Buildings and improvements	24-40 years
Equipment, furniture and fixtures	3-5 years

Costs incurred in connection with construction projects are accumulated until complete and put into service, at which time they are transferred into the related property and equipment account and depreciated over the estimated useful life of the asset.

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.

The Organization follows FASB ASC 410, *Asset Retirement and Environmental 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, 2018 and 2017, 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.

Impairment of long-lived assets: Long-lived assets, which consist primarily of property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. When such events occur, the Organization compares the carrying amounts of the assets to the undiscounted expected future cash flows over the remaining life of the asset. If this comparison indicates that there may be impairment, the amount of impairment is calculated as the difference between the carrying value and fair value. During the fiscal years ended June 30, 2018 and 2017, no impairment indicators were identified.

Deferred revenue: Receipts from the Organization's summer programs have been deferred and will be recorded as revenue as 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 accordance with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Liquidity: In order to provide information about liquidity, assets are sequenced according to their nearness of conversion to cash and liabilities according to the nearness of their estimated maturity.

Contingencies: The Organization is subject to claims that have risen in the normal course of business. The likely outcome of these claims is unknown; accordingly, no reserves have been made for the potential settlements of these claims. The Organization records such claims when the loss is probable to occur and the amount is estimable.

Reclassifications: Certain reclassifications within the financial statements have been made to the 2017 financial statements to conform to the 2018 presentation.

Recently adopted accounting pronouncements: In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Organization beginning after December 15, 2018. The Organization elected to early adopt ASU 2016-18 which requires restricted cash to be included with cash and cash equivalents on the statement of cash flows. This standard was applied retrospectively to the year ended June 30, 2017.

Recently issued accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Organization is currently evaluating the impact of the implementation method per the new standard on its financial statements.

In August, 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14 — *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Organization has not evaluated the impact of this ASU on the financial statements.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the FASB Emerging Issues Task Force)*. To reduce diversity in practice, the ASU provides solutions for eight specific statement of cash flow classification issues. The ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The Organization has not evaluated the impact of this ASU on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is contingent. ASU 2018-08 is effective for annual periods, in which it is the resource recipient, beginning after December 15, 2018, and annual and interim periods thereafter. ASU 2018-08 is effective for annual periods in which it is the resource provider, beginning after December 15, 2019, and annual and interim periods thereafter. Early adoption is permitted. The amendments in this update should be applied on a modified prospective basis. The Organization is currently evaluating the impact of this ASU on the financial statements and disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topics 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The amendment removes, modifies, and adds additions to the disclosure requirements on fair value measurements in Topic 820. The amendments in ASU 2018-13 are effective for all entities for fiscal years, and interim periods, within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The amendments on the changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent or interim or annual period presented in the initial year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The Organization is currently evaluating the impact of this ASU on the financial statements and disclosures.

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 Organization is subject to federal and state income taxes on unrelated business income, if any.

The Organization follows FASB ASC 740, *Income Taxes*, which 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. The Organization recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities. Management evaluated the Organization's tax positions and concluded that the Organization has no material uncertainties in income taxes.

With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for fiscal years before 2015. Interest and penalties, if any, are included in income tax expense.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 3. Pledges Receivable

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

	2018	2017
In one year or less	\$ 3,521,000	\$ 5,536,000
Between one and five years	3,037,468	4,464,095
	<u>6,558,468</u>	<u>10,000,095</u>
Less:		
Allowance for uncollectible pledges	66,515	103,000
Discount to present value (ranging from 0.7% - 4.8%)	149,000	203,000
	<u>\$ 6,342,953</u>	<u>\$ 9,694,095</u>

The Organization's "Opening Doors" campaign concluded on June 30, 2017. As of June 30, 2018 and 2017, the Organization has received approximately \$5.4 million and \$8.1 million, respectively, of intentions to give, which are not reflected in pledges receivable.

As of June 30, 2018 and 2017, three donors constitute 36% and two donors constitute 31%, respectively, of gross pledges.

Note 4. Temporarily Restricted Net Assets

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

	2018	2017
Other specific activities of the Organization	\$ 6,828,657	\$ 6,133,873
Scholarships	52,025	63,025
Opening Doors Campaign	3,091,596	6,505,625
MHK Giving Back Assistance Fund	808,105	995,105
Capital expenditures	2,391,483	1,125,000
Beneficial interests in charitable trusts	651,014	458,404
Accumulated realized and unrealized net gains and investment income on permanently restricted net assets	11,349,208	8,642,984
	<u>\$ 25,172,088</u>	<u>\$ 23,924,016</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:

	2018	2017
Endowment:		
Specific activities of the Organization	\$ 31,394,824	\$ 29,320,098
General activities of the Organization	19,499,538	18,768,080
	<u>\$ 50,894,362</u>	<u>\$ 48,088,178</u>

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 6. Net Assets Released from Restrictions

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

Purpose restrictions accomplished for the years ended June 30 are as follows:

	2018	2017
Other specific activities of the Organization	\$ 4,042,989	\$ 3,128,778
Scholarships	11,000	16,530
MHK Giving Back Assistance Fund	210,000	210,000
Comprehensive Campaign	-	720,514
Opening Doors Campaign	2,662,030	2,606,142
	<u>\$ 6,926,019</u>	<u>\$ 6,681,964</u>
Releases – long term purposes	<u>\$ 25,683</u>	<u>\$ 876,075</u>

Note 7. Long-term Investments

Long-term investments, at fair value, consisted of the following at June 30:

	2018	2017
Money market savings	\$ 1,505,314	\$ 3,728,048
Domestic bonds	6,172,731	9,151,484
International bonds	2,008,840	2,020,170
Domestic equity	16,414,916	17,892,378
International equity	12,636,111	7,719,356
Emerging markets equity	4,397,853	4,546,405
Real assets	3,279,343	2,789,188
Alternative investments	16,622,888	7,253,959
Total long-term investments	<u>\$ 63,037,996</u>	<u>\$ 55,100,988</u>

Note 8. Fair Value Measurements

Under the FASB's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various methods including market, income and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 8. Fair Value Measurements (Continued)

Level 2: Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement, in its entirety, requires judgment, and considers factors specific to the investment.

The Organization has various processes and controls in place to ensure that fair value is reasonably estimated.

While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the years ended June 30, 2018 and 2017, there were no changes to the Organization's valuation techniques that had, or are expected to have, a material impact on its financial position or changes in net assets.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Money market savings, equity securities, bonds, mutual funds and real assets: The fair value of money market savings, equity securities, bonds and real assets is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Beneficial interest in charitable trusts: The fair value of beneficial interest in charitable trusts is based on quoted market prices of the underlying investments and present value techniques.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 8. Fair Value Measurements (Continued)

The following tables are a summary of assets that the Organization measures at fair value on a recurring basis at June 30:

2018	Level 1	Level 2	Level 3	Other Investments Measured at Net Asset Value (a)	Total
Money market savings	\$ 1,505,314	\$ -	\$ -	\$ -	\$ 1,505,314
Domestic bonds	6,172,731	-	-	-	6,172,731
International bonds	2,008,840	-	-	-	2,008,840
Domestic equity	7,319,504	-	-	9,095,412	16,414,916
International equity	10,546,343	-	-	2,089,768	12,636,111
Emerging markets equity	4,397,853	-	-	-	4,397,853
Real assets	3,279,343	-	-	-	3,279,343
Alternative investments	-	-	-	16,622,888	16,622,888
Total long-term investments	<u>\$35,229,928</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$27,808,068</u>	<u>\$63,037,996</u>
Beneficial interest in trusts	\$ -	\$ -	\$ 1,262,405	\$ -	\$ 1,262,405
Money market savings	\$ 36,875	\$ -	\$ -	\$ -	\$ 36,875
Mutual funds	115,636	-	-	-	115,636
Deferred compensation assets included in other assets	<u>\$ 152,511</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152,511</u>

2017	Level 1	Level 2	Level 3	Other Investments Measured at Net Asset Value (a)	Total
Money market savings	\$ 3,728,048	\$ -	\$ -	\$ -	\$ 3,728,048
Domestic bonds	9,151,484	-	-	-	9,151,484
International bonds	2,020,170	-	-	-	2,020,170
Domestic equity	14,857,626	-	-	3,034,752	17,892,378
International equity	5,889,693	-	-	1,829,663	7,719,356
Emerging markets equity	4,546,405	-	-	-	4,546,405
Real assets	2,789,188	-	-	-	2,789,188
Alternative investments	-	-	-	7,253,959	7,253,959
Total long-term investments	<u>\$42,982,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$12,118,374</u>	<u>\$55,100,988</u>
Beneficial interest in trusts	\$ -	\$ -	\$ 1,045,339	\$ -	\$ 1,045,339
Money market savings	\$ 10,706	\$ -	\$ -	\$ -	\$ 10,706
Mutual funds	102,425	-	-	-	102,425
Deferred compensation assets included in other assets	<u>\$ 113,131</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,131</u>

(a) In accordance with ASC Subtopic 820-10, *Fair Value Measurements*, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified within the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy amounts to amounts presented in the statements of financial position.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 8. Fair Value Measurements (Continued)

During the years ended June 30, 2018 and 2017, the Organization did not make any transfers between Level 1, Level 2, or Level 3 assets.

The changes in assets, at fair value, for which the Organization has used Level 3 inputs to determine fair value are as follows:

	Beneficial Interest in Trusts 2018	Beneficial Interest in Trusts 2017
Balance, beginning of year	\$ 1,045,339	\$ 1,825,183
Change in value of split interest agreements	242,749	96,231
Distributions	(25,683)	(876,075)
Balance, end of year	<u>\$ 1,262,405</u>	<u>\$ 1,045,339</u>

The following table presents quantitative information about significant unobservable inputs used in Level 3 fair value measurements at June 30:

	2018 Fair Value	2017 Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Beneficial interest in perpetual trusts	\$ 611,392	\$ 586,935	Market approach based on underlying securities	None	N/A
Beneficial interests in charitable remainder trusts	\$ 651,013	\$ 458,404	Income approach-discounted cash flow and present value techniques	Discount Rate Rate of Return Life Expectancy	6% (6%) 6% (6%) 5.3 -19 years (11.66 years)

The assets held in trust are managed by an independent third party trustee, and the Organization has no authority over investment decisions.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 8. Fair Value Measurements (Continued)

The Organization uses the net asset value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company. The following table lists investments in investment companies by major category.

	Strategy	2018 NAV in Funds	2018 Unfunded Commitments	Redemption Frequency	Redemption Restrictions
Domestic equity	Funds divided into multiple sectors investing in domestic public companies	\$ 9,095,412	\$ -	Monthly / Quarterly	5 - 60 day notice, 1 year lock for 1 fund
International equity	Global fund, primarily publically traded common stocks and fixed income	2,089,768	30,000	Monthly	6 day notice
Private equity	Venture and buyout, in the U.S. and international	5,667,480	2,306,009	N/A*	N/A
Absolute return	Funds of funds which focuses on partnerships investing in publicly traded companies	10,955,408	1,500,000	Quarterly / Semi-annual / Annual	45 - 90 day notice, 1 - 3 year lock ups for 3 funds
		<u>\$ 27,808,068</u>	<u>\$ 3,836,009</u>		

In addition, the Organization has commitments totaling \$4,000,000 for investments which have not had any capital calls as of June 30, 2018.

	Strategy	2017 NAV in Funds	2017 Unfunded Commitments	Redemption Frequency	Redemption Restrictions
Domestic equity	Funds divided into multiple sectors investing in domestic public companies	\$ 3,034,752	\$ -	Monthly	5 day notice
International equity	Global fund, primarily publically traded common stocks and fixed income	1,829,663	-	Monthly	6 day notice
Private equity	Venture and buyout, in the U.S. and international	5,010,939	2,210,944	N/A*	N/A
Absolute return	Funds of funds which focuses on partnerships investing in publicly traded companies	2,243,020	-	Annual	90 day notice
		<u>\$ 12,118,374</u>	<u>\$ 2,210,944</u>		

* These funds are in private equity structure, with no ability to be redeemed. Distributions are generally made as the underlying investments are sold.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 9. Pension Plans

The Organization had a defined benefit pension plan. Plan benefits were based on years of service and average annual earnings. Plan assets were principally invested in fixed income. On November 1, 2014, the Plan was amended to freeze participant entry and benefit accruals. Effective April 30, 2016, the Plan was terminated. During November 2016, the Plan was fully liquidated and all accrued benefits were paid to participants directly or to an annuity provider on their behalf. This event was recognized as a settlement in fiscal year 2017.

Information relative to the Organization's defined benefit pension plan for the year ended June 30, 2017 is presented below:

Obligations and funded status

	<u>2017</u>
Change in benefit obligation:	
Benefit obligation at beginning of year	\$ 10,008,785
Service cost	37,500
Interest cost	192,914
Actuarial (gain) loss	(71,780)
Benefits paid	(54,122)
Expenses paid	(21,170)
Effect of settlement	<u>(10,092,127)</u>
Benefit obligation at end of year	<u>-</u>
Change in plan assets:	
Fair value of plan assets at beginning of year	5,865,797
Actual return on plan assets	13,929
Employer contributions	4,287,693
Benefits paid	(54,122)
Expenses paid	(21,170)
Effect of settlement	<u>(10,092,127)</u>
Fair value of plan assets at end of year	<u>-</u>
Funded status of plan at end of year	<u>\$ -</u>

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 9. Pension Plans (Continued)

Net periodic benefit cost and other changes in unrestricted net assets

	<u>2017</u>
Service cost	\$ 37,500
Interest cost	192,914
Expected return on plan assets	(13,929)
Amortization of unrecognized net losses	84,816
Deferred asset gain	<u>(103,122)</u>
Net periodic benefit cost	<u>198,179</u>
Effect of settlement	3,723,428
Other changes in unrestricted net assets not yet included in net periodic benefit cost:	
Net actuarial loss	(53,475)
Effect of curtailment (gain)	<u>(3,723,428)</u>
Non-operating changes in unrestricted net assets	<u>(53,475)</u>
Total amounts recognized as changes in unrestricted net assets arising from the defined benefit plan	<u>\$ 144,704</u>

Assumptions

	<u>2017</u>
Weighted-average assumptions used in computing net cost:	
Discount rate	2.75%
Rate of compensation increase	N/A
Expected return on plan assets	N/A

On November 1, 2014, the Organization created a tax sheltered annuity retirement plan under Section 403(b) of the Internal Revenue Code, which covers all eligible employees. All participating employees have salary reduction contributions made on their behalf. In addition, the Organization will make a core contribution if an employee meets certain eligibility requirements. Additionally, the Organization will match 50% of contributions made by an employee up to 4% of compensation. Retirement plan expense for the years ended June 30, 2018 and 2017 was \$601,203 and \$580,803, respectively.

On November 1, 2014, the Organization created a deferred compensation plan under Section 457(b) of the Internal Revenue Code, which covers certain key members of management. The Organization may make contributions to the participant accounts based on the Board's discretion. Participants are at all times fully vested in employer contributions. The participants in this plan are unsecured creditors of the Organization for the amount of their deferred compensation balances. As of June 30, 2018 and 2017, the balance in the accounts were \$152,511 and \$113,131, respectively, which is included in the statements of financial position as prepaid and other assets and accrued expenses, and the related expense is included in payroll taxes and fringe benefits and allocated between management and general and programs.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 10. Line of Credit

The Organization has a \$5,000,000 line of credit structured as a 364-day revolving credit facility with interest payable at LIBOR plus one percent. The line of credit is unsecured and has a liquidity to committed debt covenant to be measured semi-annually. The line of credit is renewed annually on June 30. The line was renewed on June 5, 2018 through June 30, 2019.

There was no interest expense for the years ended June 30, 2018 and 2017.

Note 11. Land, Buildings and Equipment

	2018	2017
Land	\$ 480,275	\$ 480,275
Buildings and improvements	58,600,143	58,333,456
Equipment, furniture and fixtures	3,269,142	2,990,712
Construction in progress	88,585	-
	<u>62,438,145</u>	<u>61,804,443</u>
Less accumulated depreciation	<u>(30,702,570)</u>	<u>(28,534,028)</u>
	<u>\$ 31,735,575</u>	<u>\$ 33,270,415</u>

Depreciation expense amounted to \$2,168,544 and \$2,171,935 for the years ended June 30, 2018 and 2017, respectively.

Note 12. Related Party Transactions

Certain members, or their affiliates, of the Organization's Board of Directors provide various professional services, including health benefits beginning in fiscal year 2018, and rent facilities to the Organization. Directors and management disclose these relationships and Directors abstain from any votes related to services that they may provide or related agreements. Total payments under these arrangements were \$2,336,701 and \$359,110 for the years ended June 30, 2018 and 2017, respectively.

Some professional services also were received from related parties on an in-kind basis. Certain members of the Board of Directors are partners or employees of investment companies in which the Organization has direct investments. Directors and management disclose these relationships and abstain from any votes related to these specific investments. These direct investments represent approximately 5.79% and 10.88% of the Organization's total investments as of June 30, 2018 and 2017, respectively.

Note 13. Contributed Gifts-in-Kind

The Organization receives and recognizes contributed gifts-in-kind, in the form of consulting and other goods and services, at fair value. Contributions made for program 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 Berkshire Partners Club and a portion of the Edgerley Family Club. The use of these facilities constitutes a "gift-in-title", the value of which is equal to the fair market value of the lease of the facilities at the commencement of the leases.

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 14. Operating Leases

The Organization has a variety of operating leases for vehicles, equipment and office space. Effective May 1, 2016, the Organization entered into a new office space lease at 200 High Street in Boston, Massachusetts with a related party (Note 12). The new office space lease payments began on March 1, 2017 and run thru February 28, 2032. The Organization paid their previous office space lease at 50 Congress Street through the lease expiration date of May 2017. The Organization recorded an obligation for the remaining lease payments under the former lease at the time of moving into the new office. This obligation was offset by expected sublease income in accordance with U.S. GAAP. The Organization was unable to lease the old office space for the remaining lease term and accordingly recorded a non-operating expense for this amount in the year ending June 30, 2017. The new office space rental expense was recorded using the straight-line method in accordance with U.S. GAAP. Deferred rent for the new office space totaled \$467,350 and \$409,318 as of June 30, 2018 and 2017 and is included in accrued expenses on the statement of financial position. As of June 30, 2018 and 2017, the Organization expensed \$673,109 and \$780,965, respectively for these leases.

The following is a schedule of minimum lease payments under these lease agreements:

2019	\$ 537,399
2020	524,923
2021	509,093
2022	488,724
2023	449,091
Thereafter	4,339,490
	<u>\$ 6,848,720</u>

Note 15. Endowment Assets

Endowment net asset composition by type of fund at June 30:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 5,393,069	\$ -	\$ -	\$ 5,393,069
Donor restricted endowment funds	-	11,349,208	49,531,148	60,880,356
Total endowment funds	<u>\$ 5,393,069</u>	<u>\$ 11,349,208</u>	<u>\$ 49,531,148</u>	<u>\$ 66,273,425</u>
	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 5,197,929	\$ -	\$ -	\$ 5,197,929
Donor restricted endowment funds	-	8,642,984	44,941,421	53,584,405
Total endowment funds	<u>\$ 5,197,929</u>	<u>\$ 8,642,984</u>	<u>\$ 44,941,421</u>	<u>\$ 58,782,334</u>

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 15. Endowment Assets (Continued)

Changes in endowment net assets for the years ended June 30, 2018 and 2017 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2017	\$ 5,197,929	\$ 8,642,984	\$ 44,941,421	\$ 58,782,334
Investment return:				
Net investment income	202,287	1,001,881	-	1,204,168
Net realized and unrealized gains	151,879	3,727,634	-	3,879,513
Total investment return	354,166	4,729,515	-	5,083,681
Gifts and designations to endowment and payments on endowment pledges	25,683	-	4,589,727	4,615,410
Appropriation of endowment income per spending policy	(184,709)	(2,023,291)	-	(2,208,000)
June 30, 2018	\$ 5,393,069	\$ 11,349,208	\$ 49,531,148	\$ 66,273,425
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2016	\$ 4,116,870	\$ 4,433,594	\$ 40,320,611	\$ 48,871,075
Investment return:				
Net investment income	101,488	762,896	-	864,384
Net realized and unrealized gains	283,275	5,294,715	-	5,577,990
Total investment return	384,763	6,057,611	-	6,442,374
Gifts and designations to endowment and payments on endowment pledges	876,075	-	4,620,810	5,496,885
Appropriation of endowment income per spending policy	(179,779)	(1,848,221)	-	(2,028,000)
June 30, 2017	\$ 5,197,929	\$ 8,642,984	\$ 44,941,421	\$ 58,782,334

During the year ended June 30, 2017 the Organization took a loan from the board designated endowment to fund the termination of the pension plan. The loan was \$3,000,000 with a term of 10 years with an interest rate of 3% per annum. Beginning January 1, 2017, monthly interest only payments were due through June 30, 2017, with monthly principal and interest payments commencing on July 1, 2017 through maturity, of \$30,276. Principal and interest payments made on the loan during the year ended June 30, 2018 totaled \$562,640 and \$163,991, respectively, representing payments for 2018 and 2019 based on the loan amortization schedule. Interest paid on the loan was \$45,000 through June 30, 2017. Interest payments are included as interest expense and in interest and dividend income on the statement of activities. As of June 30, 2018 and 2017, the amount outstanding was \$2,437,360 and \$3,000,000, respectively, and is included in endowment assets, and is eliminated in the statement of financial position.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies at June 30, 2018 or 2017.

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Notes to Financial Statements

Note 16. Beneficial Interest in Charitable Trusts

Beneficial interest in charitable trusts consist of the following at June 30:

	2018	2017
Beneficial interest in perpetual trusts held by third party	\$ 611,392	\$ 586,935
Charitable remainder annuity trusts held by third party	651,013	458,404
	<u>\$ 1,262,405</u>	<u>\$ 1,045,339</u>

The Organization is one of the beneficiaries named in various perpetual trusts managed by third party trustees. Under the terms of the trust agreements, the Organization is to receive quarterly or annual distribution payments. During the years ended June 30, 2018 and 2017 the Organization received approximately \$21,941 and \$30,489, in distributions, respectively.

The Organization is also the beneficiary of charitable remainder trust instruments whereby an independent third party trustee has custody of and manages the assets and the annuities. These assets are recorded net of the present value of the annuity liability. During the year ended June 30, 2017, one of the trusts terminated and began liquidating. Distributions from this trust received during June 30, 2018 and 2017 totaled \$25,683 and \$876,075, respectively.

The net change in the value of the Organization's beneficial interest in these trusts is recorded as a change in the value of split interest agreements on the statements of activities. This change amounted to \$242,749 and \$96,231 for the years ended June 30, 2018 and 2017, respectively.

Note 17. Subsequent Events

The Organization has evaluated subsequent events through November 14, 2018, the date on which the financial statements were available to be issued.