



**REPORT ON AUDIT  
OF FINANCIAL STATEMENTS  
JUNE 30, 2012**

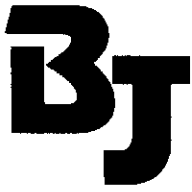
**BEVERLY BOOTSTRAPS COMMUNITY SERVICES, INC.**

REPORT ON AUDIT OF FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012

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# Bernard, Johnson & Company, P.C.

Certified Public Accountants and Business Advisors

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Beverly Bootstraps Community Services, Inc.

We have audited the accompanying statement of financial position of Beverly Bootstraps Community Services, Inc. (a Massachusetts corporation, not for profit) ("Beverly Bootstraps") as of June 30, 2012 and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of Beverly Bootstraps' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Beverly Bootstraps' 2011 financial statements and, in our opinion dated November 3, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Beverly Bootstraps Community Services, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Bernard Johnson & Company P.C.*

Topsfield, Massachusetts  
September 13, 2012

**BEVERLY BOOTSTRAPS COMMUNITY SERVICES, INC.**

STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2012 AND 2011

	ASSETS	
	2012	2011
Current assets:		
Cash and cash equivalents	\$ 252,222	\$ 303,149
Grants and pledges receivable	53,104	32,000
Prepaid expenses and other	29,100	25,868
TOTAL CURRENT ASSETS	334,426	361,017
Investments restricted as to use	447,298	345,540
Property and equipment, net	822,192	808,302
TOTAL ASSETS	\$ 1,603,916	\$ 1,514,859
	LIABILITIES AND NET ASSETS	
Current liabilities:		
Current portion of long-term debt	\$ 19,010	\$ 17,972
Accounts payable and accrued expenses	53,499	35,879
TOTAL CURRENT LIABILITIES	72,509	53,851
Long-term debt, net of current portion	372,069	390,731
TOTAL LIABILITIES	444,578	444,582
Net assets:		
Unrestricted:		
General operating	662,455	695,663
Board designated	445,779	344,614
Total unrestricted	1,108,234	1,040,277
Temporarily restricted	51,104	30,000
TOTAL NET ASSETS	1,159,338	1,070,277
TOTAL LIABILITIES AND NET ASSETS	\$ 1,603,916	\$ 1,514,859

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

**BEVERLY BOOTSTRAPS COMMUNITY SERVICES, INC.**

STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012  
*(With Comparative Totals for 2011)*

	Unrestricted	Temporarily Restricted	Total 2012	Total 2011
<b>REVENUES AND SUPPORT:</b>				
Contributions	\$ 553,552	\$ 455,399	\$ 1,008,951	\$ 897,210
Grants	-	101,591	101,591	241,280
Contracts	-	8,000	8,000	8,000
Special events	112,732	-	112,732	98,274
Program fees and rents	-	8,765	8,765	11,306
Retail sales	486,403	-	486,403	363,870
Investment income	2,740	-	2,740	5,127
	<u>1,155,427</u>	<u>573,755</u>	<u>1,729,182</u>	<u>1,625,067</u>
Net assets released from restrictions	552,651	(552,651)	-	-
	<u>1,708,078</u>	<u>21,104</u>	<u>1,729,182</u>	<u>1,625,067</u>
<b>OPERATING EXPENSES:</b>				
PROGRAM SERVICES	<u>1,342,078</u>	-	<u>1,342,078</u>	<u>1,171,483</u>
<b>SUPPORT SERVICES:</b>				
Management and general	109,829	-	109,829	90,108
Fundraising	188,214	-	188,214	173,313
Total support services	<u>298,043</u>	-	<u>298,043</u>	<u>263,421</u>
TOTAL OPERATING EXPENSES	<u>1,640,121</u>	-	<u>1,640,121</u>	<u>1,434,904</u>
CHANGE IN NET ASSETS	67,957	21,104	89,061	190,163
NET ASSETS, beginning of year	<u>1,040,277</u>	<u>30,000</u>	<u>1,070,277</u>	<u>880,114</u>
NET ASSETS, end of year	<u>\$ 1,108,234</u>	<u>\$ 51,104</u>	<u>\$ 1,159,338</u>	<u>\$ 1,070,277</u>

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

**BEVERLY BOOTSTRAPS COMMUNITY SERVICES, INC.**

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 89,061	\$ 190,163
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation	26,857	22,712
Cash provided by (used in) changes in:		
Grants and pledges receivable	(21,104)	(22,000)
Prepaid expenses and other	(3,232)	(6,838)
Accounts payable and accrued expenses	17,620	9,566
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>109,202</u>	<u>193,603</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments restricted as to use	(101,758)	(290,926)
Purchases of property and equipment	(40,747)	(10,870)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(142,505)</u>	<u>(301,796)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES -</b>		
Payments of long-term debt	(17,624)	(16,196)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(50,927)	(124,389)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>303,149</u>	<u>427,538</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 252,222</u>	<u>\$ 303,149</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for -		
Interest	\$ 20,957	\$ 23,428

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

**BEVERLY BOOTSTRAPS COMMUNITY SERVICES, INC.**

STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2012  
(With Comparative Totals for 2011)

	Direct Services	Housing	Food	Thrift Store	Adult/ Youth	Fund-Raising	Management and General	Total 2012	Total 2011
Salaries	\$ 116,831	\$ 457	\$ 74,366	\$ 85,227	\$ 165,621	\$ 110,722	\$ 77,244	\$ 630,468	\$ 474,737
Payroll taxes	9,955	39	6,337	7,262	14,112	9,434	6,582	53,721	36,877
Fringe benefits	27,039	43	23,881	4,525	25,420	6,946	3,218	91,072	80,629
Total salaries and benefits	153,825	539	104,584	97,014	205,153	127,102	87,044	775,261	592,243
Rent	-	-	-	38,400	-	-	-	38,400	38,400
Building maintenance	2,879	3,075	4,889	1,024	3,152	398	1,411	16,828	16,628
Depreciation	5,097	3,107	8,443	-	8,566	1,428	216	26,857	22,712
Mortgage interest expense	6,107	762	6,227	-	6,216	1,116	529	20,957	23,428
Utilities	2,235	-	2,268	5,510	2,244	418	184	12,859	13,912
Insurance	6,982	-	7,029	-	6,768	1,412	-	22,191	14,105
Total occupancy costs	23,300	6,944	28,856	44,934	26,946	4,772	2,340	138,092	129,185
Program supplies and expenses	38,922	-	232,531	4,148	186,719	-	245	462,565	472,969
Office expense	17,207	1,577	22,758	13,954	30,331	13,067	1,653	100,547	83,368
Contract labor	5,988	-	7,154	34,092	10,762	1,026	254	59,276	75,619
Special events and fundraising	-	-	-	-	-	39,189	-	39,189	33,782
Equipment lease	1,358	-	1,394	5,782	1,407	240	112	10,293	10,514
Professional fees	2,317	-	2,358	-	2,346	428	191	7,640	10,480
Advertising	1,672	-	1,784	5,271	1,922	234	7,401	18,284	8,301
Telephone	1,208	-	1,243	2,247	1,262	210	508	6,678	6,996
Volunteer appreciation	100	-	66	1,200	238	-	3,987	5,591	5,231
Conferences, meetings and travel	249	-	1,118	20	388	222	4,892	6,889	4,211
Payroll service fees	1,819	7	1,158	1,327	2,579	1,724	1,202	9,816	2,005
Total other expenses	31,918	1,584	39,033	63,893	51,235	56,340	20,200	264,203	240,507
Total expenses	\$ 247,965	\$ 9,067	\$ 405,004	\$ 209,989	\$ 470,053	\$ 188,214	\$ 109,829	\$ 1,640,121	\$ 1,434,904

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

**BEVERLY BOOTSTRAPS COMMUNITY SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

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**1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES:**

**OPERATIONS:**

Beverly Bootstraps is a leading social service agency on the North Shore that started as a food pantry in a downtown Beverly church in 1992; incorporated as Beverly Bootstraps Food Pantry in 1994; and secured IRS 501 (c)(3) status in 1995. In 2007, the agency became Beverly Bootstraps Community Services, Inc. In 2008, the organization purchased a commercial building at 371 Cabot Street in Beverly for its consolidated operations and hired its first non-founding executive director. A total of 18 Board members, 25 staff members (14.5 FTE) and over 1,000 volunteers are now involved in its work. Its mission statement says, "Beverly Bootstraps provides critical resources to families and individuals so they may achieve self-sufficiency. We offer emergency and long-term assistance including: access to food, housing stability, adult and youth education, counseling and advocacy. We are community funded and supported."

Beverly Bootstraps addresses hunger and poverty through its food assistance programs which provide emergency food to those in need. The Food Pantry distributes food through a pantry visit or delivery Monday through Friday and two Saturdays per month. In FY 12, the Food Pantry served 2,717 individuals (1,169 households) with 24,294 bags of food / 971,760 lbs of food distributed in 8,098 visits by those in need. Beverly Bootstraps' Community Garden consists of 36 plots open to community gardeners for their own use, along with 16 raised beds that supply fresh produce to its Food Pantry. In FY 12, 405 lbs of food was donated to the Food Pantry. The Summer Park Lunch Program is an eight (8) week outreach effort to local children at risk of going without a noon meal during the summer months. In FY 12, 5,172 lunches were distributed.

Services include Client Support, Adult Education, Youth and Family, and Tax Preparation. Case Managers help clients cope with complex and economically challenging situations, find resources and connect to services. Types of assistance include: intake and budget assessment, housing stability, heat and utility resources, access to clothing and goods, and accessing local programs such as Fuel Assistance. In FY 12, 1,995 clients were assisted. Adult Education includes GED Test Preparation, English Language Classes, Computer Training, Adult Literacy and Job Readiness. In FY 12, over 130 students were enrolled in one of its Adult Education classes. Youth and Family services include After School Homework Clubs, Youth Literacy, Holiday Gifts, Back-to-School Supplies and Summer Camp placement. In FY 12, 22 children were enrolled in Homework Clubs, 939 books were distributed, 559 children received holiday gifts, 730 backpacks filled with school supplies were distributed and 42 children were placed in summer camps. The Earned Income Tax Credit (EITC) outreach program provides working low-income individuals and families with free tax preparation. In FY 12, 93 tax returns were filed resulting in over \$155,600 in refunds to clients; with \$76,083 as a direct result of EITC funds.

**SIGNIFICANT ACCOUNTING POLICIES:**

**Basis of Accounting and Presentation**

These financial statements have been prepared on the accrual basis of accounting. Income is recognized when earned and expenses are recognized when the obligation is incurred.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ASC 958, *Financial Statements of Not-for-Profit Organizations*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted, and permanently restricted. Beverly Bootstraps had no permanently restricted net assets at June 30, 2012 or 2011.

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**BEVERLY BOOTSTRAPS COMMUNITY SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
(Continued)

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued):**

**Comparative Financial Statements**

The accompanying Statements of Activities includes certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Beverly Bootstraps' 2011 financial statements, from which the summarized information was taken.

**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 disclosure 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.

**Cash and Cash Equivalents**

For the purpose of presentation in the Statements of Cash Flows, Beverly Bootstraps considers short-term investments with original maturities of three months or less to be cash equivalents. There were no time certificates of deposit included in cash and cash equivalents at June 30, 2012 or 2011.

**Inventory**

In-kind food and thrift store inventory is not recorded in the Statements of Financial Position as the full value would be immaterial and any method for consistently recording its value has been determined to be arbitrary. Donations of used items, such as outdated clothing, food and supplies are used in Beverly Bootstraps' programs or sold through its thrift store.

**Investments Restricted as to Use**

The Board of Directors designated a \$250,000 Operating Reserve Fund (the "Fund") by vote at its June, 2011 board meeting and increased it by \$100,000 in June, 2012. The general purpose of the fund is to help to ensure Beverly Bootstraps' long-term financial stability, and position it to respond to varying economic conditions and changes affecting its financial position. In addition, the Board has designated \$40,000 for a capital replacement reserve and has also designated \$54,614 from a previous bequest to support operating reserves.

The Executive Director may access up to \$25,000 from the Fund as a revolving line of credit, provided that, in the determination of the Executive Director, sufficient accounts or grants receivable are reasonably certain to be available to repay such usage within ninety (90) calendar days.

Any funds borrowed from the Fund greater than \$25,000 or for longer than ninety (90) calendar days will be paid back through a prescribed repayment schedule. Approval of any such usage and the proposed repayment schedule shall be requested by the executive director from the finance committee for review, deliberation, and recommendation to the board for further deliberation and vote.

(Continued)

**BEVERLY BOOTSTRAPS COMMUNITY SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
(Continued)

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued):**

**Management's Review**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 13, 2012, the date the financial statements were available to be issued.

**Fair Value**

Fair value is the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes the inputs in fair value measurements and expands disclosures about fair value measurements. "Level I" measurements are measurements using quoted prices in active markets for identical assets or liabilities. "Level II" measurements use significant other observable inputs. "Level III" measurements are measurements using significant unobservable inputs which require development of assumptions. In recording the fair value of its assets and liabilities, Beverly Bootstraps uses Level I measurements.

**Property and Equipment**

Property and equipment are stated at cost or at fair market value upon receipt in the case of donated property. Depreciation is provided using the straight-line method, based on the estimated useful lives of the assets (five to thirty-nine years). Maintenance and repairs are charged to operations. Purchases of property and equipment in excess of \$1,000 are capitalized.

**Impairment of Long-Lived Assets**

Beverly Bootstraps has given consideration to the Financial Accounting Standards Board Statement ASC 360, *Accounting for the Impairment of Long-Lived Assets* (ASC 360) in its presentation of these financial statements. As of June 30, 2012, Beverly Bootstraps has not recognized any reduction in the carrying value of its property when considering ASC 360.

**Revenue Recognition**

Retail sale revenues are recognized at the time of sale. Revenues from contracts, grants and program fees are recognized as services are rendered or contractual commitments are met. Rental income from the use of the Clear Point Horizons condominium is recognized monthly and is currently \$850 per month.

**Donated Services and Facilities**

Donated services and facilities are recognized as contributions in accordance with ASC 958, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance non-financial assets or (b) require specialized skills, and are performed by people with those skills, and would otherwise be purchased. The organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the organization in carrying out its mission, which are not recognized as contributions in the financial statements since the recognition criteria under ASC 958 are not met.

(Continued)

**BEVERLY BOOTSTRAPS COMMUNITY SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
(Continued)

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued):**

**Contributions**

Contributions received are recorded upon receipt of cash in the instance of monetary contributions. Contributed food and back-to-school supplies are recorded at their estimated fair market value, as unrestricted or temporarily restricted depending on the existence and/or nature of any donor restrictions. Donor restricted contributions received and satisfied in the same period are included in unrestricted net assets. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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 Statements of Activities as net assets released from restrictions.

Gifts in-kind are reflected as contributions in the accompanying financial statements at their estimated values at the date of receipt. Contributions of food are recorded using a wholesale value of \$1.66 per pound as determined annually by the Feeding America National Network of Food Banks. Contributions of cash that must be used to acquire land, buildings and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Beverly Bootstraps reports expirations of donor restrictions when the acquired assets are placed in service as instructed by the donor. The organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**Functional Allocation of Expenses**

The costs of providing Beverly Bootstraps' various programs and activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain indirect costs have been allocated to programs and supporting services benefited based upon management's estimate of the percentage attributable to each function.

**Marketing**

Beverly Bootstraps expenses marketing and promotional costs as incurred. Marketing costs were \$18,284 and \$8,301 for the years ended June 30, 2012 and 2011, respectively.

**Income Tax Status and Uncertainty of Income Taxes**

Beverly Bootstraps is exempt from federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. Contributions are deductible by donors within the requirements of the Internal Revenue Code.

Management follows ASC Topic 740 relating to accounting for uncertainty in income taxes. As required, management has evaluated its tax positions applying a "more likely than not" standard, and believes that there would be no material changes to the results of its operations or financial position as a result of an audit by the federal or state taxing authorities. Management has filed all of the organization's tax filings in a timely manner including, as permitted, allowed extensions.

(Continued)

**BEVERLY BOOTSTRAPS COMMUNITY SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
(Continued)

**2. INVESTMENTS RESTRICTED AS TO USE:**

Investments restricted as to use are reported at fair value and consisted of the following at June 30:

	2012	2011
Money market funds	\$406,396	\$305,082
Certificate of deposit	40,902	40,458
	<u>\$447,298</u>	<u>\$345,540</u>

The certificate of deposit matures on June 25, 2013 and earns interest at the rate of 1.04%.

**3. FAIR VALUE MEASUREMENTS:**

Investments restricted as to use are measured using Level I measurements in the fair value hierarchy.

**4. PROPERTY AND EQUIPMENT:**

Property and equipment are comprised of the following at June 30:

	2012	2011
Land, building and condominium	\$873,073	\$861,482
Office and program equipment	46,006	33,805
Software	16,955	-
Motor vehicles	6,550	6,550
Leasehold improvements	2,346	2,346
	<u>944,930</u>	<u>904,183</u>
Less accumulated depreciation	122,738	95,881
	<u>\$822,192</u>	<u>\$808,302</u>

Depreciation expense was \$26,857 and \$22,712 for the years ended 2012 and 2011, respectively.

The condominium was purchased in 1999 through the HOME Investment Partnership Program and is used in the Clear Point Horizons housing program. In exchange for an interest-free loan of \$27,000 used to purchase the property, Beverly Bootstraps granted the North Shore HOME Consortium a fifteen (15) year Affordable Housing Restriction ensuring retention of the property for occupancy by low income persons and families.

**5. LONG-TERM DEBT:**

Beverly Bootstraps has a mortgage note payable to a bank secured by land and condominium located in Beverly and used in the Clear Point Horizons housing program (see Note 4). Principal and interest (6%) payments of approximately \$433 are payable monthly through September, 2014. The principal balance of the mortgage was \$10,078 and \$14,529 at June 30, 2012 and 2011, respectively. Future aggregate minimum principal payments over the following three (3) fiscal years are as follows:

2013	\$4,725
2014	5,016
2015	337

(Continued)

**BEVERLY BOOTSTRAPS COMMUNITY SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
(Continued)

**5. LONG-TERM DEBT (continued):**

Beverly Bootstraps also has a \$27,000 loan payable to the City of Beverly secured by the land and condominium used in the Clear Point Horizons program. The loan is interest-free and is for a term of 15 years at which time (September, 2014) the entire principal balance is due. The use of the security is subject to an Affordable Housing Restriction granted to the North Shore HOME Consortium (see Note 4).

Beverly Bootstraps has a mortgage note payable to a bank secured by land and office building located in Beverly and used as the agency headquarters. Principal and interest (5.5%) payments of approximately \$2,781 are payable monthly through March, 2016 at which time the interest rate will adjust. The principal balance of the mortgage was \$354,001 and \$367,175 at June 30, 2012 and 2011, respectively. Future aggregate minimum principal payments over the following five fiscal years are as follows:

2013	\$ 14,285
2014	15,091
2015	15,942
2016	16,841
2017	17,791
Thereafter	274,051

**6. COMMITMENTS AND CONTINGENCIES:**

**Leases**

Beverly Bootstraps leases a 4,080 square foot facility in Beverly for the purpose of operating its thrift store program. The five year lease ending May 31, 2014 requires monthly rent of \$3,200. The costs of utilities and maintenance are the responsibility of Beverly Bootstraps. A \$2,000 deposit for last month's rent is included in prepaid expenses and other on the Statements of Financial Position.

Rent expense was \$38,400 for the years ended June 30, 2012 and 2011.

**Unemployment Compensation**

Through 2011, Beverly Bootstraps followed the reimbursable method of paying for state unemployment insurance benefits. Under the reimbursable method, the organization does not incur costs until a former employee files for unemployment benefits and is determined to be eligible. Once determined eligible, the organization is billed monthly for any and all costs incurred as a result of the payment of unemployment benefits. Beverly Bootstraps has not accrued an estimated potential liability for these prior costs nor did it incur costs related to unemployment claims in 2012 or 2011. Starting in January, 2012, Beverly Bootstraps initiated quarterly contributions to the state's reserve funds and is no longer following the reimbursable method.

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**BEVERLY BOOTSTRAPS COMMUNITY SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
(Continued)

**7. RESTRICTIONS ON NET ASSETS:**

Temporarily restricted net assets of \$51,104 represent pledge donations having time restrictions.

**Operating Reserve Fund Activity and Designated Net Asset Balances**

As a component of its unrestricted net assets, Beverly Bootstraps has a Board-designated Operating Reserve Fund (the "Fund", see Note 1) comprised of funds whose use is limited to funding initiatives, managing cash flow interruptions, minimizing the need to borrow funds, meeting commitments and functioning as an internal line of credit. The Board has established a target amount of maintaining thirty-three (33%) percent to fifty (50%) percent of Beverly Bootstraps' annual budgeted operating expenses, or about three (3) to six (6) months of expenses on average.

Fund activity for the year ended June 30, 2012, is as follows:

Operating Reserve Fund net assets, beginning of year	\$250,097
Investment designation	100,000
Investment income	1,068
Appropriations	-
Operating Reserve Fund net assets, end of year	<u>\$351,165</u>

**Fund Investment Policy**

Beverly Bootstraps has adopted a conservation of principal approach with a primary investment objective of fixed income investments to generate current income and a secondary investment objective of conservative growth.

**Strategies Employed for Achieving Objectives**

Beverly Bootstraps has determined that a preservation of capital objective is most appropriate. This objective is designed to preserve the real value of its assets and to maintain spending in real terms. The Board cannot pay out more, on average over time, than the average real return it earns from its investment portfolio. While there is no specific spending policy in place, the Board understands they would like to achieve the return and risk characteristics consistent with the following allocation:

Cash and money market funds	80-100%
Equity securities	0-5%
Fixed income securities	0-20%

Beverly Bootstraps manages its Fund consistent with the Massachusetts Uniform Prudent Management of Institutional Funds Act ("UPMIFA").

Not yet included in the Fund are liquid assets totaling \$96,133 the Board has designated for a capital replacement reserve and other operating reserve funds.

*(Continued)*

**BEVERLY BOOTSTRAPS COMMUNITY SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

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**8. RETIREMENT PLAN:**

Beverly Bootstraps offers a retirement plan under section 401(k) of the Internal Revenue Code for all employees aged 21 or older and having a minimum of one year of service. For each calendar year, the organization contributes a matching contribution to each eligible employee's account equal to 5% of the employee's compensation for the calendar year. All contributions to the plan are fully vested and non-forfeitable. For the years ended June 30, 2012 and 2011, matching contributions totaled \$19,839 and \$13,905, respectively.

**9. CONCENTRATIONS:**

Beverly Bootstraps maintains its cash balances in bank deposit accounts which, at times, may exceed federally insured limits of \$250,000. No losses have been experienced in such accounts and management regularly monitors the financial condition of the financial institutions and specific cash balances to limit its exposure to any significant credit risk.