
**BOSTON HARBOR
ISLAND ALLIANCE, INC.**

Financial Statements

December 31, 2011 and 2010

BOSTON HARBOR ISLAND ALLIANCE, INC.

December 31, 2011 and 2010

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Independent Auditors' Report

To the Board of Directors
Boston Harbor Island Alliance, Inc.
Boston, Massachusetts

We have audited the accompanying statements of financial position of Boston Harbor Island Alliance, Inc., (a not-for-profit organization) as of December 31, 2011 and 2010, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boston Harbor Island Alliance, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Edelstein & Company LLP

Boston, Massachusetts
July 13, 2012

BOSTON HARBOR ISLAND ALLIANCE, INC.

Statements of Financial Position

December 31,

2011

2010

Assets

Current assets:

Cash	\$ 998,486	\$ 974,063
Unconditional promises to give	296,954	1,698,648
Accounts receivable	37,767	-
Inventory	-	15,949
Prepaid expenses	1,411	1,909
Total current assets	<u>1,334,618</u>	<u>2,690,569</u>

Other assets:

Unconditional promises to give	164,117	264,720
Investments	-	5,806
Investments - other	3,745,408	8,384,442
Furniture and equipment, net of accumulated depreciation of \$59,448 and \$52,810, respectively	21,113	27,751
Total assets	<u>\$ 5,265,256</u>	<u>\$ 11,373,288</u>

Liabilities and net assets

Current liabilities:

Accounts payable and accrued expenses	<u>\$ 1,873,089</u>	<u>\$ 1,363,644</u>
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Net assets:

Unrestricted	261,208	257,657
Temporarily restricted	3,130,959	9,751,987
Total net assets	<u>3,392,167</u>	<u>10,009,644</u>
Total liabilities and net asset:	<u>\$ 5,265,256</u>	<u>\$ 11,373,288</u>

BOSTON HARBOR ISLAND ALLIANCE, INC.**Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Contributions and grants	\$ 1,997,078	\$ 1,022,738	\$ 3,019,816
Special events, net of expenses of \$141,691	189,999	-	189,999
In-kind support	305,377	-	305,377
Merchandise income	535	-	535
Tour fees	213,908	-	213,908
Investment income (loss)	30,697	(3,285)	27,412
Net assets released from restrictions	7,640,481	(7,640,481)	-
Total support and revenues	<u>10,378,075</u>	<u>(6,621,028)</u>	<u>3,757,047</u>
Expenses:			
Program services	9,722,400	-	9,722,400
Management and general	403,339	-	403,339
Fundraising	248,785	-	248,785
Total expenses	<u>10,374,524</u>	<u>-</u>	<u>10,374,524</u>
Change in net assets	3,551	(6,621,028)	(6,617,477)
Net assets, beginning of year	<u>257,657</u>	<u>9,751,987</u>	<u>10,009,644</u>
Net assets, end of year	<u>\$ 261,208</u>	<u>\$ 3,130,959</u>	<u>\$ 3,392,167</u>

BOSTON HARBOR ISLAND ALLIANCE, INC.

Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Contributions and grants	\$ 6,398,956	\$ 2,113,226	\$ 8,512,182
Special events, net of expenses of \$104,997	193,151	-	193,151
In-kind support	408,974	-	408,974
Merchandise income	2,414	-	2,414
Tour fees	197,196	-	197,196
Investment income (loss)	61,063	(16,092)	44,971
Net assets released from restrictions	2,725,695	(2,725,695)	-
Total revenues	<u>9,987,449</u>	<u>(628,561)</u>	<u>9,358,888</u>
Expenses:			
Program services	9,202,289	-	9,202,289
Management and general	578,865	-	578,865
Fundraising	196,106	-	196,106
Total expenses	<u>9,977,260</u>	<u>-</u>	<u>9,977,260</u>
Change in net assets	10,189	(628,561)	(618,372)
Net assets, beginning of year	<u>247,468</u>	<u>10,380,548</u>	<u>10,628,016</u>
Net assets, end of year	<u>\$ 257,657</u>	<u>\$ 9,751,987</u>	<u>\$ 10,009,644</u>

BOSTON HARBOR ISLAND ALLIANCE, INC.

Statement of Functional Expenses For the Year Ended December 31, 2011

	Economic Development and Public Programs	Environment and Education	Park Promotion	Total Program	Management and General	Fundraising	Total
Salaries, wages and benefits	\$ 171,285	\$ -	\$ 92,334	\$ 263,619	\$ 144,084	\$ 191,074	\$ 598,777
Contract and professional services	8,569,302	61,415	659,033	9,289,750	69,955	25,657	9,385,362
Supplies, postage and printing	10,757	-	23,269	34,026	628	19,367	54,021
Merchandise	587	-	-	587	-	-	587
Occupancy	-	-	-	-	127,208	-	127,208
Insurance	-	-	-	-	13,577	-	13,577
Inventory obsolescence adjustment	-	-	-	-	15,363	-	15,363
Depreciation	-	-	-	-	6,638	-	6,638
Marketing	146	-	120,503	120,649	-	-	120,649
Catering & meeting expense	931	123	3,106	4,160	4,918	4,286	13,364
Office expense	2,695	625	4,007	7,327	18,615	7,626	33,568
Travel and transportation	547	-	1,735	2,282	2,353	775	5,410
Total	\$ 8,756,250	\$ 62,163	\$ 903,987	\$ 9,722,400	\$ 403,339	\$ 248,785	\$ 10,374,524

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

BOSTON HARBOR ISLAND ALLIANCE, INC.

Statement of Functional Expenses For the Year Ended December 31, 2010

	Economic Development and Public Programs	Environment and Education	Park Promotion	Total Program	Management and General	Fundraising	Total
Salaries, wages and benefits	\$ 234,321	\$ 37,081	\$ 79,246	\$ 350,648	\$ 165,392	\$ 148,958	\$ 664,998
Contract and professional services	8,152,000	239,149	218,813	8,609,962	300,039	18,746	8,928,747
Supplies, postage and printing	58,162	11,691	10,437	80,290	330	17,336	97,956
Merchandise	1,976	-	-	1,976	-	-	1,976
Occupancy	-	-	-	-	69,000	-	69,000
Insurance	1,170	-	-	1,170	17,026	-	18,196
Depreciation	-	-	-	-	10,548	-	10,548
Interest	3,973	-	-	3,973	-	-	3,973
Marketing	-	-	82,566	82,566	-	-	82,566
Catering & meeting expense	14,768	1,192	1,787	17,747	754	4,262	22,763
Office expense	24,292	6,948	8,027	39,267	14,045	6,393	59,705
Travel and transportation	2,084	11,208	1,398	14,690	1,731	411	16,832
Total	\$ 8,492,746	\$ 307,269	\$ 402,274	\$ 9,202,289	\$ 578,865	\$ 196,106	\$ 9,977,260

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

BOSTON HARBOR ISLAND ALLIANCE, INC.

Statements of Cash Flows

For the Years Ended December 31,

2011

2010

Cash flows used in operating activities:

Change in net assets	\$ (6,617,477)	\$ (618,372)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	6,638	10,548
Donated stock	(10,651)	(11,200)
Unrealized loss on investments	3,285	5,706
Realized loss (gain) on investments	202	186
Inventory obsolescence adjustment	15,363	-
Loss on disposal of furniture and equipment	-	1,728
Changes in operating accounts:		
Unconditional promises to give	1,502,297	(1,008,670)
Accounts receivable	(37,767)	2,500
Inventory	586	1,976
Prepaid expenses	498	(220)
Accounts payable and accrued expenses	509,445	526,085
Net cash used in operating activities	(4,627,581)	(1,089,733)

Cash flows provided by investing activities:

Purchase of furniture and equipment	-	(217)
Purchase of investments - other	(28,826)	(47,523)
Proceeds from sales of common stock	16,275	5,814
Proceeds from redemption of certificates of deposits	4,664,555	1,549,292
Net cash provided by investing activities	4,652,004	1,507,366

Cash flows used in financing activities:

Repayments on line of credit	-	(230,481)
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Increase in cash 24,423 187,152

Cash, beginning of year 974,063 786,911

Cash, end of year \$ 998,486 \$ 974,063

Supplemental financial information:

Cash paid during the year for interest \$ - \$ 3,973

BOSTON HARBOR ISLAND ALLIANCE, INC.

Notes to Financial Statements

1. Organization Purpose

Boston Harbor Island Alliance, Inc. (“the Organization”) is a not-for-profit organization whose principal objectives include the promotion of the use, enjoyment and awareness of the Boston Harbor Islands national park area by creating vibrant public spaces, facilities and programming on the islands, raising and managing the public and private resources necessary to do so. The Organization attracts private sector investment and support to improve public awareness and use of the Boston Harbor Islands national park area, and helps provide the necessary strategic and financial resources to develop and manage the park. Specifically, the Organization attracts and manages funds for access, recreational, and environmental programs and projects, and assists state and federal agencies with implementing services (e.g. water transportation, food and beverage, etc).

The Organization frequently receives restricted funds to construct, improve or rehabilitate Park facilities owned by other entities. The Organization expends those funds for improvements in capital facilities, but since the facilities are owned by others (either the Massachusetts Department of Conservation and Recreation or the National Park Service), no corresponding increase appears on the Organization’s statement of financial position, giving the erroneous impression of a major loss to the Organization. For example, in 2011 the Organization invested roughly \$6.4 million in restricted funds to rehabilitate the former Ft. Andrews guardhouse on Peddocks Island, converting the facility to a Welcome Center and event space on behalf of the owner, the Department of Conservation and Recreation. Accordingly, expenditures related to this project resulted in the large operating loss sustained during the year ended December 31, 2011.

2. Summary of Significant Accounting Policies

Basis of Presentation

In order to ensure the observance of limitations and restrictions placed on the use of resources available to the Organization, the Organization determines the classification of its net assets and its revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions.

The net assets of the Organization are reported in three categories as follows:

- (1) *Unrestricted net assets* - Net assets that are available for support of the Organization’s general operations.
- (2) *Temporarily restricted net assets* - Net assets restricted by donors for specific purposes or time restrictions.
- (3) *Permanently restricted net assets* - represent resources which cannot be expended. Income on these invested endowment funds is utilized in accordance with the donors’ stipulations.

The Organization had no permanently restricted net assets as of or for the years ended December 31, 2011 and 2010.

Support and Revenues

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Contributions that are classified as temporarily restricted are reclassified as unrestricted net assets upon satisfaction of the program restriction or expiration of the time restriction.

BOSTON HARBOR ISLAND ALLIANCE, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Support and Revenues (continued)

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Grants from state and federal sources that provide for cost sharing and reimbursement agreements are recognized as expenses are incurred.

The Organization conducts special events, including the annual regatta and a gala (including a silent auction). Revenues from special events are presented net of related expenses.

Income from tour fees of the Islands and sales of merchandise are recorded when earned.

The Organization receives various types of in-kind support in the form of contributed services and other assets. Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, and would typically need to be purchased if not provided by donation. Contributed assets are recorded at their fair market value on the date of contribution.

Investment income, including dividends, interest, and realized and unrealized gains and losses are classified on the statement of activities as unrestricted unless restricted by donor or law. Changes in market value of mutual funds and realized gains and losses have been included in investment income in the statement of activities and changes in net assets.

Cash

Cash consists of money market and checking accounts.

Fair Value Measurements

The Organization values its financial assets and liabilities based on 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 utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 - Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 - Observable inputs other than Level 1 inputs such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with market data.

BOSTON HARBOR ISLAND ALLIANCE, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

Level 3 - Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty risk in its assessment of fair value. Accordingly, common stock is reported using level 1 measurements in the fair value hierarchy.

Investments – Other

Money market funds are reported based on quoted net asset values as substantially all of these investments have maturity dates within one year from the date of purchase. The carrying amounts of certificates of deposit were determined at face value plus accrued interest.

Inventory

Inventory is valued at the lower of cost or market. The Organization sells merchandise at Boston's Fan Pier. During the year ended December 31, 2011, management determined that its inventory had a nominal value. Accordingly, management applied an obsolescence reserve adjustment for the entire inventory balance. This inventory adjustment has been reported on the statement of functional expenses.

Furniture and Equipment

Furniture and equipment is stated at cost if purchased, or fair value if donated. Depreciation is computed over the estimated useful lives of the assets, five years, using the straight-line method.

Use of Estimates and Subsequent Events

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The Organization's management has evaluated the effect which subsequent events may have on these financial statements. Management's evaluation was completed on July 13, 2012, the date these financial statements became available to be issued. No events have occurred subsequent to the balance sheet date and through the date of evaluation that meet the criteria required for disclosure or accrual.

Income Taxes

The Organization's activities are described in Internal Revenue Code Section 501(c)(3) and, therefore, is exempt from federal income taxes. The Organization is also exempt from Massachusetts income taxes under Massachusetts General Law Chapter 180.

BOSTON HARBOR ISLAND ALLIANCE, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

The Organization has evaluated the tax positions taken on returns for open years and those expected to be taken on returns for the year ended December 31, 2011. It is management's belief that such tax positions are more likely than not to be sustained upon examination by tax authorities. Accordingly, no liability for uncertain tax positions has been reflected in these financial statements. Returns for tax years beginning with those filed for the year ended December 31, 2008 are open to examination.

Reclassifications

Certain amounts from 2010 have been reclassified on these financial statements in order to conform to 2011 presentation.

3. Unconditional Promises to Give

Unconditional promises to give consist of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year:		
Foundations	\$ 95,280	\$ 216,188
Corporations	24,422	10,000
Individuals	79,575	120,607
Government	<u>105,177</u>	<u>1,359,353</u>
Total	304,454	1,706,148
Less – allowance for uncollectable pledges	<u>(7,500)</u>	<u>(7,500)</u>
	<u>\$ 296,954</u>	<u>\$ 1,698,648</u>
Receivable between one and three years:		
Foundations	\$ 170,000	\$ 285,000
Less – net present value discount	<u>(5,883)</u>	<u>(20,280)</u>
Net pledges receivable between one and three years	<u>\$ 164,117</u>	<u>\$ 264,720</u>

The present value of estimated future cash flows has been determined utilizing a discount rate of approximately 3% and 4% for the years ended December 31, 2011 and 2010, respectively.

BOSTON HARBOR ISLAND ALLIANCE, INC.

Notes to Financial Statements

4. In-Kind Gifts

During the years ended December 31, 2011 and 2010, the Organization recognized income from contributed goods and services income as follows:

	<u>2011</u>	<u>2010</u>
Advertising	\$ 87,554	\$ 4,300
Legal services	26,278	246,585
Rent (including an escalation in 2011)	95,648	69,000
Office equipment usage	31,560	-
Professional fees	41,500	84,629
Supplies	18,037	3,835
Water transportation	<u>4,800</u>	<u>625</u>
	<u>\$ 305,377</u>	<u>\$ 408,974</u>

The Organization's offices are located on property which is owned by the National Park Service. No rent is charged for the use of these offices. Therefore, the fair rental value of the office space has been included as in-kind support in the statement of activities and as occupancy expense in the statement of functional expenses. The fair value of the contribution was computed on the basis of square feet of space occupied by the Organization and is estimated at \$95,648 and \$69,000 for the years ended December 31, 2011 and 2010, respectively. Occupancy expenses provided by National Park Service during the year ended December 31, 2011 include a rent escalation and office equipment usage totaling \$127,208.

The Organization received goods and services for the annual gala dinner and Regatta which were held during the years ended December 31, 2011 and 2010. The amount contributed to these special events was \$11,800 and \$1,024 for the years ended December 31, 2011 and 2010, respectively. The value of these goods and services is included as special events expense in the statement of activities and changes in net assets.

A number of unpaid volunteers have also made significant contributions of time totaling 8,754 and 4,124 hours for the years ended December 31, 2011 and 2010, respectively, to work on the Organization's various programs. The value of this contributed time is not reflected in these financial statements since it does not meet the specialized skills criteria described previously.

5. Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Financial assets and liabilities measured at fair value on a recurring basis consisted of the following at December 31, 2011 and 2010:

	<u>2011</u> <u>Level 1</u>	<u>2010</u> <u>Level 1</u>
Common stock	<u>-</u>	<u>5,806</u>
	<u>\$ -</u>	<u>\$ 5,806</u>

BOSTON HARBOR ISLAND ALLIANCE, INC.

Notes to Financial Statements

6. Investments - Other

Investments - other at December 31, 2011 and 2010 are summarized as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Money market funds	\$ 3,000,632	\$ 3,000,632	\$ 3,973,763	\$ 3,973,763
Certificates of deposit	<u>744,776</u>	<u>747,000</u>	<u>4,410,679</u>	<u>4,416,000</u>
	<u>\$ 3,745,408</u>	<u>\$ 3,747,632</u>	<u>\$ 8,384,442</u>	<u>\$ 8,389,763</u>

The components of investment income for the years ended December 31, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 30,899	\$ 50,862
Realized losses on investments	(202)	(186)
Unrealized losses on investments	<u>(3,285)</u>	<u>(5,705)</u>
	<u>\$ 27,412</u>	<u>\$ 44,971</u>

7. Retirement Plan

The Organization sponsors a defined contribution plan for all full-time employees. The plan is qualified under Internal Revenue Code Section 403(b) and the Employee Retirement Income Security Act. The Organization made no contributions to this plan during 2011 and 2010.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2011 and 2010 are comprised of term endowment funds that were available for the following purposes:

	<u>2011</u>	<u>2010</u>
Mitigation funds	\$ 1,875,882	\$ 8,176,719
Park promotion	110,975	247,157
Public access and safety	46,593	60,342
Youth Corps project	-	20,030
TDC Study	5,788	6,468
Boston Harbor Environmental Monitoring project	1,808	25,240
Boston Harbor Islands Curriculum project	-	3,099
Advisory Council	-	124
Pavilion operations	673,916	703,307
Public outreach and park development	<u>415,997</u>	<u>509,501</u>
	<u>\$ 3,130,959</u>	<u>\$ 9,751,987</u>

BOSTON HARBOR ISLAND ALLIANCE, INC.

Notes to Financial Statements

8. Temporarily Restricted Net Assets (continued)

Net assets released from restrictions for the years ended December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Mitigation funds	\$ 6,397,552	\$ 1,454,967
Park promotion	241,296	204,185
Public access and safety	188,748	192,982
Youth Corps project	20,030	40,933
TDC Study	680	-
Boston Harbor Environmental Monitoring project	25,809	32,113
Boston Harbor Islands Curriculum project	3,549	17,626
Advisory Council	124	462
Pavilion operations	44,289	8,338
Public outreach and park development	<u>718,404</u>	<u>774,089</u>
	<u>\$ 7,640,481</u>	<u>\$ 2,725,695</u>

9. Concentration Risks

There was a concentration in revenue during the years ended December 31, 2011 and 2010 in that the Organization received \$2.6 million (or 69% of its total support) and \$6.8 million (or 72% of its total support), respectively, from government sources to be used for island infrastructure improvements and public transportation to the Boston Harbor Islands. For the year ended December 31, 2011, three funders comprised 70% of unconditional promises to give, while two funders comprised 77% of unconditional promises to give for the year ended December 31, 2010.

The Organization has a potential concentration of credit risk in that it maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The maximum deposit insurance amount is \$250,000 for interest-bearing accounts, which is applied per depositor, per insured depository institution for each account ownership category. Non-interest bearing transaction deposit accounts will be provided unlimited insurance coverage through December 31, 2012.

10. Line-of-Credit

The Organization has a revolving line-of-credit agreement with its bank permitting advances up to \$275,000. Advances bear interest at the prime rate. The line of credit is secured and collateralized by the investment assets of the Organization. As of December 31, 2011, the Organization has no outstanding balance on its line of credit.