

# The Boys and Girls Clubs of Boston, Inc.

Financial Report  
June 30, 2009

**McGladrey & Pullen**  
Certified Public Accountants

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

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

We have audited the accompanying statements of financial position of The Boys and Girls Clubs of Boston, Inc. (the "Organization") as of June 30, 2009 and 2008, and the related statements of activities, 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 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 The Boys and Girls Clubs of Boston, Inc. as of June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Burlington, Massachusetts  
November 11, 2009

The Boys and Girls Clubs of Boston, Inc.

Statements of Financial Position

June 30, 2009 and 2008

<b>Assets</b>	2009	2008
Cash and cash equivalents	\$ 2,482,796	\$ 2,437,754
Short-term investments, at market value (Note 7)	1,915,607	1,663,545
Reimbursable program grant expenditures	375,757	492,347
Prepaid expenses and other assets	414,107	173,472
Pledges receivable (Notes 3, 4, 5 and 12)	18,845,763	25,307,087
Long-term investments, at market value (Note 7)	19,003,026	21,267,110
Land, buildings and equipment, at cost, net (Note 10)	29,901,007	31,192,365
<b>Total assets</b>	<b>\$ 72,938,063</b>	<b>\$ 82,533,680</b>
<b>Liabilities and Net Assets</b>		
Line of credit (Note 9)	\$ 1,520,000	\$ 2,400,000
Accounts payable - trade	243,071	468,605
Accrued expenses (Note 8)	2,078,176	1,297,619
Deferred revenue	187,896	153,086
<b>Total liabilities</b>	<b>4,029,143</b>	<b>4,319,310</b>
Net Assets		
Unrestricted		
Board designated	1,154,338	1,154,338
Plant fund	29,901,007	30,697,665
Operating	146,991	4,469,851
	<b>31,202,336</b>	<b>36,321,854</b>
Temporarily restricted (Notes 4, 6 and 14)	8,652,583	13,268,010
Permanently restricted (Notes 5 and 14)	29,054,001	28,624,506
<b>Total net assets</b>	<b>68,908,920</b>	<b>78,214,370</b>
<b>Total liabilities and net assets</b>	<b>\$ 72,938,063</b>	<b>\$ 82,533,680</b>

See Notes to Financial Statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Activities

Years Ended June 30, 2009 and 2008

	2009				2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains and Other Support</b>								
United Way contributions	\$ 840,368	\$ -	\$ -	\$ 840,368	\$ 1,105,738	\$ -	\$ -	\$ 1,105,738
Contributions and benefits	5,217,374	1,672,296	429,495	7,319,165	4,989,888	6,362,608	8,904,025	20,256,521
Grants from governmental agencies - Federal	1,093,949	-	-	1,093,949	850,584	-	-	850,584
Grants from governmental agencies - State and City	129,330	-	-	129,330	112,399	-	-	112,399
Parent fees, vouchers, member dues, and club camp fees	777,098	-	-	777,098	727,042	-	-	727,042
Gifts-in-kind (Note 12)	219,248	-	-	219,248	258,240	-	-	258,240
Service and other income	1,328,008	-	-	1,328,008	1,313,884	-	-	1,313,884
Investment income on long-term investments designated by the Board for operations (Note 6)	174,095	595,314	-	769,409	708,909	(451,148)	-	257,761
Net assets released from restrictions (Note 6)	5,168,865	(5,168,865)	-	-	6,247,991	(6,247,991)	-	-
<b>Total revenues, gains and other support</b>	<b>14,948,335</b>	<b>(2,901,255)</b>	<b>429,495</b>	<b>12,476,575</b>	<b>16,314,675</b>	<b>(336,531)</b>	<b>8,904,025</b>	<b>24,882,169</b>
<b>Operating Expenses (Notes 8, 9, 11, and 13)</b>								
Program Services	10,888,028	-	-	10,888,028	11,093,843	-	-	11,093,843
Management and general	1,400,328	-	-	1,400,328	1,773,111	-	-	1,773,111
Fundraising	2,259,612	-	-	2,259,612	2,321,571	-	-	2,321,571
<b>Total operating expenses</b>	<b>14,547,968</b>	<b>-</b>	<b>-</b>	<b>14,547,968</b>	<b>15,188,525</b>	<b>-</b>	<b>-</b>	<b>15,188,525</b>
<b>Income (loss) from operations before depreciation</b>	<b>400,367</b>	<b>(2,901,255)</b>	<b>429,495</b>	<b>(2,071,393)</b>	<b>1,126,150</b>	<b>(336,531)</b>	<b>8,904,025</b>	<b>9,693,644</b>
Depreciation expense (Note 10)	1,657,246	-	-	1,657,246	1,646,415	-	-	1,646,415
<b>Income (loss) from operations</b>	<b>(1,256,879)</b>	<b>(2,901,255)</b>	<b>429,495</b>	<b>(3,728,639)</b>	<b>(520,265)</b>	<b>(336,531)</b>	<b>8,904,025</b>	<b>8,047,229</b>
<b>Non-operating activities</b>								
Net assets released from restriction (capital expenditures) (Note 6)	46,473	(46,473)	-	-	2,029,415	(2,029,415)	-	-
In-kind gift for renovation (Note 12)	-	-	-	-	2,000,000	-	-	2,000,000
Investment income on long-term investment designated by the Board for operations (Notes 6 and 14)	(174,095)	(595,314)	-	(769,409)	(257,761)	-	-	(257,761)
Interest and dividend income (Note 14)	86,131	90,550	-	176,681	257,761	45,133	-	302,894
Investment expense (Note 14)	(59,673)	-	-	(59,673)	(75,082)	-	-	(75,082)
Net realized gains on investments (Note 14)	84,915	35,281	-	120,196	519,681	119,766	-	639,447
Net unrealized losses on investments (Note 14)	(2,883,933)	(1,198,216)	-	(4,082,149)	(590,587)	(645,155)	-	(1,235,742)
Comprehensive campaign expenses	(52,526)	-	-	(52,526)	(91,874)	-	-	(91,874)
Reclassification of donor intent	-	-	-	-	-	(1,757,500)	1,757,500	-
Pension liability adjustment (Note 8)	(909,931)	-	-	(909,931)	(181,994)	-	-	(181,994)
<b>Non-operating gains (losses)</b>	<b>(3,862,639)</b>	<b>(1,714,172)</b>	<b>-</b>	<b>(5,576,811)</b>	<b>3,609,559</b>	<b>(4,267,171)</b>	<b>1,757,500</b>	<b>1,099,888</b>
<b>Change in net assets</b>	<b>(5,119,518)</b>	<b>(4,615,427)</b>	<b>429,495</b>	<b>(9,305,450)</b>	<b>3,089,294</b>	<b>(4,603,702)</b>	<b>10,661,525</b>	<b>9,147,117</b>
Net Assets - Beginning of Year	36,321,854	13,268,010	28,624,506	78,214,370	33,232,560	17,871,712	17,962,981	69,067,253
Net Assets - End of Year	\$ 31,202,336	\$ 8,652,583	\$ 29,054,001	\$ 68,908,920	\$ 36,321,854	\$ 13,268,010	\$ 28,624,506	\$ 78,214,370

See Notes to Financial Statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Functional Expenses  
Years Ended June 30, 2009 and 2008

	2009				2008			
	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	\$ 359,770	\$ 81,242	\$ 26,271	\$ 467,283	\$ 286,651	\$ 62,395	\$ 56,795	\$ 405,841
Education	358,647	82,904	107,230	548,781	402,730	89,499	83,372	575,601
Leadership and character development	122,948	28,658	70,831	222,437	114,902	26,332	99,569	240,803
Life skills	766,571	176,750	87,353	1,030,674	597,785	134,685	101,087	833,557
Sports, fitness, recreation	643,533	151,068	87,271	881,872	686,710	155,462	87,612	929,784
Technology	288,082	67,152	122,439	477,673	244,013	52,141	160,992	457,146
Summer programs	186,564	51,138	163,548	401,250	303,289	73,529	202,237	579,055
School age child care	198,884	47,594	42,922	289,400	209,714	46,678	56,346	312,738
Member services	288,263	66,930	131,939	487,132	266,819	59,715	116,037	442,571
Youth Service Providers Network	712,691	162,749	79,711	955,151	695,516	153,459	111,120	960,095
Shared space sites	995,961	169,471	235,695	1,401,127	909,149	162,452	395,342	1,466,943
Programs (Support Expenses)								
Facility maintenance, insurance and utilities	242,336	56,770	1,454,707	1,753,813	258,605	57,051	1,495,861	1,811,517
Program management and administration	1,013,731	234,470	134,341	1,382,542	922,692	203,944	253,426	1,380,062
Program development and staff support	387,989	90,288	110,616	588,893	379,973	86,370	231,787	698,130
Depreciation	-	-	1,634,953	1,634,953	-	-	1,609,432	1,609,432
<b>Total program expenses, including depreciation expense</b>	<b>6,565,970</b>	<b>1,467,184</b>	<b>4,489,827</b>	<b>12,522,981</b>	<b>6,278,548</b>	<b>1,363,712</b>	<b>5,061,015</b>	<b>12,703,275</b>
Management and General	611,588	140,199	648,541	1,400,328	777,105	165,555	830,451	1,773,111
Depreciation, Management and General			22,293	22,293	-	-	36,983	36,983
Fundraising	1,128,267	257,341	874,004	2,259,612	973,082	216,017	1,132,472	2,321,571
<b>Total operating expenses and depreciation expenses</b>	<b>\$ 8,305,825</b>	<b>\$ 1,864,724</b>	<b>\$ 6,034,665</b>	<b>\$ 16,205,214</b>	<b>\$ 8,028,735</b>	<b>\$ 1,745,284</b>	<b>\$ 7,060,921</b>	<b>\$ 16,834,940</b>

See Notes to Financial Statements.

The Boys and Girls Clubs of Boston, Inc.

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Change in net assets	\$ (9,305,450)	\$ 9,147,117
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,657,246	1,646,415
In-kind gift for renovation	-	(2,000,000)
Net realized and unrealized losses on investments	3,961,953	596,297
Contributions received for long-term use	(1,599,465)	(3,517,725)
Changes in operating assets and liabilities		
Pledges receivable	6,461,324	(1,349,024)
Reimbursable program grant expenditures	116,590	(199,817)
Prepaid expenses and other assets	(240,635)	(54,623)
Accounts payable - trade	(225,534)	153,871
Accrued expenses	780,557	341,703
Deferred revenue	34,810	23,399
<b>Total adjustments</b>	<b>10,946,846</b>	<b>(4,359,504)</b>
<b>Net cash provided by operating activities</b>	<b>1,641,396</b>	<b>4,787,613</b>
Cash Flows from Investing Activities		
Purchase of building improvements and equipment	(365,888)	(1,625,289)
Proceeds from sale of investments	12,943,366	5,010,903
Purchase of investments	(14,893,297)	(8,730,466)
<b>Net cash used in investing activities</b>	<b>(2,315,819)</b>	<b>(5,344,852)</b>
Cash Flows from Financing Activities		
Net borrowings under line of credit	(880,000)	(1,557,725)
Contributions received for long-term use	1,599,465	3,517,725
<b>Net cash provided by financing activities</b>	<b>719,465</b>	<b>1,960,000</b>
Net Increase in Cash and Cash Equivalents	45,042	1,402,761
Cash and Cash Equivalents:		
Beginning of year	2,437,754	1,034,993
End of year	\$ 2,482,796	\$ 2,437,754
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid during the year for interest	\$ 60,750	\$ 227,151
In-kind gift included in building improvements	\$ -	\$ 2,000,000

See Notes to Financial Statements.

Notes to Financial Statements

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**Note 1. Summary of Significant Accounting Policies**

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

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

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

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

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

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

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

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

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

The Organization has adopted FASB Staff Position ("FSP") No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. This pronouncement 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 Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA").

Notes to Financial Statements

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**Note 1. Summary of Significant Accounting Policies (continued)**

UPMIFA is a model act approved by the Uniform Law Commission ("ULC"; formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. This FSP also improves 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.

Effective June 30, 2009 Massachusetts adopted the UPMIFA of 2006. The Organization adopted the provisions of UPMIFA during the year ended June 30, 2009, which apply to funds existing on or established after that date. No reclassification of net assets from unrestricted to temporarily restricted was required by the Organization due to the adoption of FSP 117-1.

**Contributions:** Contributions received, including unconditional pledges, are recognized as revenue when donors' commitments are received. Pledges made and collected in the same reporting period are recorded when received in the appropriate net asset category.

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 of such pledges, net of an allowance for uncollectible amounts. Conditional promises are recorded when donor stipulations are substantially met.

The Organization reports contributions of land, building and equipment as unrestricted support, unless the donor places restrictions on their use. Contributions of cash or other assets used to acquire or construct long-lived assets are reported as unrestricted support to the extent the funds have been expended for the stipulated acquisition or construction; otherwise the contributions are reported as temporarily restricted support.

**Investments:** Investments in marketable securities, primarily mutual funds, are stated at fair value as established by major securities markets and are pooled for investment purposes. 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 asset totals. Investments relating to temporarily restricted net assets are in separate accounts and are only invested in short-term securities.

Investments in nonmarketable investments (alternative investments) are generally carried at fair value determined by management, relying upon the information provided by external investment managers. The estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed. Such differences could be material. The amount of realized and unrealized gain or loss associated with these investments is reflected in the accompanying financial statements along with such amounts relating to marketable investments. The Organization believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2009 and 2008.

Investment securities 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 investment.

Unless otherwise restricted by the donor or state law, investment income and net unrealized and realized gains are recorded as increases in unrestricted net assets. When a donor restriction exists, investment income and net unrealized and realized gains are allocated based on the total balance of pooled investments applicable to the respective asset totals.

**Note 1. Summary of Significant Accounting Policies (continued)**

**Investments (continued):** The Board of Directors of the Organization, 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 funds 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 that 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) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets provide a real total return of at least 5% over the long term (rolling five-year periods). Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation by the Consumer Price Index. Actual returns in any given year may vary from this amount.

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. The Board of Directors has approved spending up to \$889,000 for the fiscal year ending June 30, 2010.

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, 2009 and 2008, the Board approved the transfer of \$769,409 and \$708,909, respectively.

Notes to Financial Statements

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**Note 1. Summary of Significant Accounting Policies (continued)**

**Fair Value Measurements:** The Organization adopted SFAS No. 157, *Fair Value Measurements*, issued by the FASB. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS No. 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under SFAS No. 157, fair value measurements are separately disclosed by level within the fair value hierarchy. The effect of the adoption of SFAS No. 157 as of July 1, 2007 would have been insignificant.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

**Level I:** Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The type of investments included in Level I are marketable equity available for sale securities that are traded in an active exchange market.

**Level II:** Pricing inputs other than quoted prices in active markets, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Instruments included in this category are warrants and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

**Level III:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level III includes assets and liabilities whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

**Operating Activities:** Changes in unrestricted net assets are classified as either operating activities or non-operating activities. Non-operating activities include investment income (including interest and dividend income, realized and unrealized gains and losses on investments), funds released from temporarily restricted net assets to support capital spending, comprehensive campaign expenses, in-kind contributions relating to real property and changes in additional minimum pension liabilities recorded. All other activities that are deemed by management to be ongoing, major and central to operations are reported as operating revenues and expenses.

**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.

**Land, Buildings and Equipment:** Land, buildings and equipment are reported at cost at the date of acquisition or fair value at the date of donation in the case of a gift. Provisions for depreciation are computed on a straight-line basis. The following are the estimated useful lives:

Buildings and improvements	25-40 years
Equipment, furniture and fixtures	3-5 years

Notes to Financial Statements

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**Note 1. Summary of Significant Accounting Policies (continued)**

**Land, Buildings and Equipment (continued):** Expenditures for maintenance and repairs are charged to expense as incurred; betterments are capitalized. When assets are sold or retired, the related cost and accumulated depreciation are removed from the respective accounts, and any resulting gain or loss is credited or charged to operations.

The Organization has adopted FASB Interpretation No. 47 ("FIN 47") *Accounting for Conditional Asset Retirement 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, 2009 and 2008, 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.

**Deferred Revenue:** Receipts from the Organization's summer programs have been deferred and will be recorded as revenue when the programs are completed and the related expenses are incurred.

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

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

**Recently Issued Accounting Pronouncements:** In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 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. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Organization has elected this deferral and accordingly will be required to adopt FIN 48 in its 2010 fiscal year financial statements. The two most common tax positions for a not-for-profit organization include both unrelated business income and tax exempt status. Prior to adoption of FIN 48, the Organization will continue to evaluate its uncertain tax positions and related income tax contingencies under SFAS No. 5, *Accounting for Contingencies*. SFAS No. 5 requires the Organization to accrue for losses it believes are probable and can be reasonably estimated. The Organization does not believe the effect, if any, of adopting FIN 48 will have a material impact on its financial position and results of operations.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification (the "Codification") and the Hierarchy of Generally Accepted Accounting Principles*, as the single source of authoritative nongovernmental Generally Accepted Accounting Principles in the United States. The Codification will be effective for interim and annual periods ending after September 15, 2009. Upon the effective date, the Codification will be the single source of authoritative accounting principles to be applied by all nongovernmental U.S. entities. All other

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

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**Note 1. Summary of Significant Accounting Policies (continued)**

**Recently Issued Accounting Pronouncements (continued):** accounting literature not included in the Codification will be nonauthoritative. The Organization does not expect the adoption of the Codification to have an impact on its financial position or results of operations.

**Reclassification:** Certain reclassifications have been made to the 2008 financial statements in order to conform to the 2009 presentation.

**Contingencies:** The Organization is subject to claims which 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.

**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.

**Note 3. Pledges Receivable**

Unconditional promises to give at June 30, 2009 and 2008 are expected to be realized in the following periods:

	<u>2009</u>	<u>2008</u>
In one year or less	\$ 13,434,553	\$ 15,832,403
Between one and five years	6,000,210	10,150,684
Greater than five years	-	350,000
	<u>19,434,763</u>	<u>26,333,087</u>
Less:		
Allowance for uncollectible pledges	194,000	263,000
Discount to present value (ranging from 3.34%-4.92%)	395,000	763,000
	<u>\$ 18,845,763</u>	<u>\$ 25,307,087</u>

**Note 4. Temporarily Restricted Net Assets**

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

	<u>2009</u>	<u>2008</u>
Teen programs	\$ 6,708	\$ 6,686
Technology programs	21,918	25,779
Education programs	166,405	250,819
Social worker programs	433,500	662,898
Other specific activities of the Organization	2,003,192	1,672,113
Scholarships	177,367	140,614
Comprehensive Campaign		
Annual Fund	4,974,937	7,977,488
Roxbury Facility Campaign	58,000	36,000
Blue Hill Facility Campaign	5,000	10,000
Chelsea Facility Campaign	80,144	78,804
Green Street Facility Campaign	99,511	98,934
Accumulated realized and unrealized net gains on permanently restricted net assets	<u>625,901</u>	<u>2,307,875</u>
	<u>\$ 8,652,583</u>	<u>\$ 13,268,010</u>

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

**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:

	<u>2009</u>	<u>2008</u>
Specific activities of the Organization	\$ 10,936,724	\$ 10,930,229
General activities of the Organization	18,117,277	17,694,277
	<u>\$ 29,054,001</u>	<u>\$ 28,624,506</u>

**Note 6. Net Assets Released from Restrictions**

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

Purpose restrictions accomplished for the years ended June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Technology programs	\$ 10,000	\$ 11,500
Education programs	90,616	191,622
Social worker programs	217,398	280,000
Other specific activities of the Organization	985,276	1,407,322
Scholarships	33,918	19,750
Comprehensive Campaign		
Annual Fund	3,236,343	3,869,938
Roxbury Facility Campaign	36,227	152,565
Blue Hill Facility Campaign	10,246	2,051,104
Chelsea Facility Campaign	-	250,000
Green Street Facility Campaign	-	43,605
Accumulated realized and unrealized net gains and (losses) on permanently restricted net assets	595,314	451,148
	<u>\$ 5,215,338</u>	<u>\$ 8,728,554</u>

**Note 7. Investments**

Investments, at fair value, consisted of the following at June 30:

	<u>2009</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>2008</u>
Money market funds	\$ 3,671,446	\$ 3,671,446	\$ -	\$ -	\$ 2,389,120
Fixed income	4,732,775	4,732,775	-	-	2,580,964
Equity	7,543,947	5,930,540	1,613,407	-	9,901,579
Alternative Investments	4,970,465	-	647,891	4,322,574	6,395,447
Total	<u>\$ 20,918,633</u>	<u>\$ 14,334,761</u>	<u>\$ 2,261,298</u>	<u>\$ 4,322,574</u>	<u>\$ 21,267,110</u>

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

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**Note 7. Investments (continued)**

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

	<u>Total</u>
Balance July 1, 2008	\$ 3,845,122
Investment Income	
Net realized/unrealized losses on investments	(812,584)
Interest and dividends	9
Investment fees	<u>(3,227)</u>
	(815,802)
Purchase of investments	1,293,254
Sales of investments	<u>-</u>
Balance June 30, 2009	<u>\$ 4,322,574</u>

As of June 30, 2009 and 2008, the Organization has approximately \$1,660,000 and \$1,700,000 of commitments to certain alternative investment funds outstanding.

**Note 8. Pension Plan**

The Organization has a defined benefit pension plan covering substantially all employees. Plan benefits are based on years of service and average annual earnings. Plan assets are principally invested in mutual funds. The Organization's policy is to fund pension costs as incurred.

Information relative to the Organization's defined benefit pension plan is presented below:

*Obligations and Funded Status*

	<u>2009</u>	<u>2008</u>
Obligations and funded status at end of years:		
Fair value of plan assets	\$ 2,053,211	\$ 2,155,423
Benefit obligations	<u>3,670,416</u>	<u>2,906,620</u>
Funded status at end of years	<u>\$ (1,617,205)</u>	<u>\$ (751,197)</u>
Amounts recognized on statement of financial position:		
Accrued expenses	<u>\$ (1,617,205)</u>	<u>\$ (751,197)</u>
Amounts recognized as changes in unrestricted net assets but not yet reclassified as components of net periodic benefit cost consist of:		
Net actuarial gain	<u>\$ 1,931,165</u>	<u>\$ 1,021,233</u>

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

Note 8. Pension Plan (continued)

	<u>2009</u>	<u>2008</u>
For pension plans with accumulated benefit obligations in excess of assets at June 30 of the respective years, aggregate amounts were:		
Projected benefit obligations	\$ 3,670,416	\$ 2,906,620
Accumulated benefit obligations	2,872,340	2,245,353
Plan assets	2,053,211	2,155,423

Net Periodic Benefit Cost and Other Changes in Unrestricted Net Assets

Net periodic benefit cost	\$ 416,464	\$ 335,739
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Other changes in net assets not yet included in net periodic benefit cost and reclassifications to net periodic benefit cost, of amounts previously recognized as changes in unrestricted net assets but not included in net periodic benefit cost when they arose:

Net actuarial (gain) loss	<u>909,931</u>	<u>181,994</u>
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Total amounts recognized as changes in unrestricted net assets arising from the defined benefit plan

	<u>\$ 1,326,395</u>	<u>\$ 517,733</u>
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*Assumptions*

Weighted-average assumptions used in computing ending obligations:

Discount rate	6.25%	6.75%
Rate of compensation increase	3.00	3.00

Weighted-average assumptions used in computing net cost:

Discount rate	6.75%	6.25%
Rate of compensation increase	3.00	3.00
Expected return on plan assets	7.50	7.50

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

*Plan Assets*

<u>Asset Category</u>	Percentage of Plan Assets at June 30,	
	<u>2009</u>	<u>2008</u>
Pension plans:		
Equity securities	66%	59%
Debt securities	34	41
Total	<u>100%</u>	<u>100%</u>

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

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Note 8. Pension Plan (continued)

*Cash Flows*

Employer contributions:	<u>Amount</u>
2008	\$ 365,000
2009	460,387
2010	540,000
Benefit payments:	<u>Amount</u>
2008	\$ 11,333
2009	208,703

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 75,000
2011	175,000
2012	426,000
2013	586,000
2014	277,000
2015 – 2019	2,226,000

Note 9. Lines of Credit

The Organization maintains an operating line of credit, with interest payable based on LIBOR plus two and one half percent (2.81% at June 30, 2009). The maximum amount available under the line of credit is \$5,000,000 and it expires on May 14, 2010, at which point all borrowings and accrued interest must be repaid or the expiration date extended at the option of the lender. The Organization had no balance outstanding under this line at June 30, 2009 and 2008.

The Organization has an existing note related to prior capital projects for Roxbury and Blue Hill, where interest is payable based on LIBOR plus one percent (1.31% at June 30, 2009). The note expires on April 10, 2010, at which point the outstanding amount may be converted to a sixty-month term loan, at the option of the Organization. The Organization had \$1,520,000 and \$2,400,000 outstanding under this line at June 30, 2009 and 2008.

Under the terms of the agreements, if there are any borrowings outstanding, the most restrictive covenants require the Organization to maintain certain minimum financial ratios, including a debt service coverage of at least 1.10.

Interest expense was \$60,750 and \$176,383 for the years ended June 30, 2009 and 2008, respectively.

# The Boys and Girls Clubs of Boston, Inc.

## Notes to Financial Statements

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### Note 10. Land, Buildings and Equipment

	<u>2009</u>	<u>2008</u>
Land	\$ 160,324	\$ 160,324
Buildings and improvements	43,965,308	43,627,070
Equipment, furniture and fixtures	<u>1,852,313</u>	<u>1,824,663</u>
	45,977,945	45,612,057
Less: accumulated depreciation	<u>16,076,938</u>	<u>14,419,692</u>
	<u>\$ 29,901,007</u>	<u>\$ 31,192,365</u>

Depreciation expense amounted to \$1,657,246 and \$1,646,415 for the years ended June 30, 2009 and 2008, respectively.

### Note 11. Related Party Transactions

Certain members, or their affiliates, of the Organization's Board of Directors and Overseers provide various professional services, including among other areas, banking and health insurance, as well as office rental space, to the Organization. Directors disclose these relationships and abstain from any votes related to services that they may provide. Total payments under these arrangements were \$1,271,454 and \$1,505,324 for the years ended June 30, 2009 and 2008, 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. Members disclose these relationships and abstain from any votes related to these specific investments. These direct investments represent approximately 1.2% and .7% of the Organization's total investments for the years ended June 30, 2009 and 2008, respectively.

### Note 12. Contributed Gifts-in-Kind

The Organization receives and recognizes contributed gifts-in-kind, in the form of consulting and other services, at fair value. Contributions made for 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 Blue Hill Club and a portion of the South Boston Club. The use of these facilities constitutes a "gift-in-title", the value of which is equal to the fair market value of the facilities at the commencement of the leases.

### Note 13. Operating Leases

The Organization has a variety of operating leases for automobiles, equipment and office space. As of June 30, 2009 and 2008, the Organization paid \$351,595 and \$282,077, respectively.

The following is a schedule of minimum lease payments as of June 30, 2009 under these lease agreements:

<u>Years ending June 30,</u>	<u>Amount</u>
2010	\$ 351,719
2011	335,327
2012	98,303
2013	<u>14,838</u>
	<u>\$ 800,187</u>

The Boys and Girls Clubs of Boston, Inc.

Notes to Financial Statements

**Note 14. Endowment Assets**

Endowment net asset composition by type of fund:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 625,901	\$ 29,054,001	\$ 29,679,902
Board designated endowment funds	1,154,338	-	-	1,154,338
Total Endowment Net Assets	<u>\$ 1,154,338</u>	<u>\$ 625,901</u>	<u>\$ 29,054,001</u>	<u>\$ 30,834,240</u>

Changes in endowment net assets for the year ended June 30, 2009 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2008	\$ 1,154,338	\$ 2,307,875	\$ 28,624,506	\$ 32,086,719
Investment return:				
Net Investment Income	-	76,275	-	76,275
Net realized and unrealized loss	-	(1,162,935)	-	(1,162,935)
Total investment return		(1,086,660)	-	(1,086,660)
Gifts to endowment	-	-	429,495	429,495
Appropriation of endowment income per spending policy	-	(595,314)	-	(595,314)
June 30, 2009	<u>\$ 1,154,338</u>	<u>\$ 625,901</u>	<u>\$ 29,054,001</u>	<u>\$ 30,834,240</u>

Permanently restricted net assets includes pledges receivable of \$9,893,938 at June 30, 2009.

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. The aggregate deficiency between the fair value of the investments of the endowment fund at June 30, 2009 and the level required by donor stipulation is approximately \$1,902,000. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. No appropriations were made for the year ended June 30, 2009 from individual funds that have a fair value below the amount of the original gift.

**Note 15. Subsequent Events**

The Organization evaluated subsequent events through November 12, 2009, when the financial statements were available to be issued.