



BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
303 Peachtree Street, NE
Atlanta, GA 30308

Independent Auditors' Report

The Board of Governors
Boys & Girls Clubs of America:

We have audited the accompanying consolidated statements of financial position of Boys & Girls Clubs of America and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended. These consolidated financial statements are the responsibility of Boys & Girls Clubs of America's management. Our responsibility is to express an opinion on these consolidated 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Boys & Girls Clubs of America's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boys & Girls Clubs of America and subsidiaries as of December 31, 2007 and 2006, and their changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in Schedule I through 4 is presented for purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

June 12, 2008

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31, 2007 and 2006

Assets	2007	2006
Cash	\$ 16,305,110	7,484,899
Investments (note 2)	294,626,691	268,485,383
Assets held in custody for others (note 15)	13,404,950	12,704,008
Membership dues and grants receivable, net	6,167,923	10,281,859
Contributions receivable (note 3)	34,437,556	39,858,045
Assets held in deferred compensation accounts (note 6)	737,337	560,595
Split interest agreements	3,587,247	3,388,915
Land, buildings, and equipment, net (note 4)	29,615,586	30,499,546
Other assets	1,505,083	1,792,688
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Total assets	\$ 400,387,483	375,055,938
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Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 15,621,881	19,238,856
Obligations for capital leases (note 14)	989,569	1,458,516
Obligations for custodial funds (note 15)	13,404,950	12,704,008
Liability under deferred compensation agreements (note 6)	737,337	560,595
Annuities payable	1,378,278	380,122
Bonds payable (note 16)	7,500,000	10,000,000
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Total liabilities	39,632,015	44,342,097
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Net assets:		
Unrestricted:		
Undesignated	3,608,269	2,940,214
Board-designated (note 12)	205,690,774	187,147,338
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	209,299,043	190,087,552
Temporarily restricted (note 10)	115,975,649	107,192,680
Permanently restricted (note 10)	35,480,776	33,433,609
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Total net assets	360,755,468	330,713,841
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Commitments and contingencies (notes 5, 9, 14, 15, 16, and 17)		
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Total liabilities and net assets	\$ 400,387,483	375,055,938
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See accompanying notes to consolidated financial statements.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Consolidated Statement of Activities

Year ended December 31, 2007

(with comparative totals for 2006)

	Unrestricted			Temporarily restricted	Permanently restricted	Totals	
	Undesignated	Board-designated	Total			2007	2006
Changes in net assets:							
Revenue, gains, and other support:							
Contributions	\$ 3,546,001	762,111	4,308,112	45,052,455	2,047,167	51,407,734	45,576,831
Government grants and contracts (note 8):							
Grants and contracts received	83,784,819	—	83,784,819	13,691,947	—	97,476,766	106,363,862
Less grants to affiliated clubs and other organizations	(86,236,168)	—	(86,236,168)	—	—	(86,236,168)	(88,034,219)
Net government grants and contracts	(2,451,349)	—	(2,451,349)	13,691,947	—	11,240,598	18,329,643
Income from funds held in trust by others (note 9)	169,158	—	169,158	1,526,022	—	1,695,180	2,265,768
Fund raising events:							
Revenue generated	5,842,997	—	5,842,997	700,264	—	6,543,261	6,982,815
Less direct costs (note 13)	(1,095,888)	—	(1,095,888)	—	—	(1,095,888)	(1,348,271)
Fund-raising events revenue in excess of direct costs	4,747,109	—	4,747,109	700,264	—	5,447,373	5,634,544
Net realized gain on sale of assets (note 4)	—	1,719,331	1,719,331	—	—	1,719,331	4,781,638
Member organization dues	7,948,902	—	7,948,902	—	—	7,948,902	7,954,864
Investment income, net of advisory and custody fees	23,740	2,933,484	2,957,224	1,257,659	—	4,214,883	4,285,036
Net realized and unrealized (losses) gains on investments	(27,914)	16,986,958	16,959,044	6,716,816	—	23,675,860	35,511,722
Other	1,496,765	111,065	1,607,830	(316,790)	—	1,291,040	1,953,079
Total revenue and gains	15,452,412	22,512,949	37,965,361	68,628,373	2,047,167	108,640,901	126,293,125
Net assets released from restrictions (note 11):							
Satisfaction of program restrictions	57,062,051	(57,988)	57,004,063	(57,004,063)	—	—	—
Expirations of time restrictions	2,841,341	—	2,841,341	(2,841,341)	—	—	—
Total net assets released from restrictions	59,903,392	(57,988)	59,845,404	(59,845,404)	—	—	—
Total revenue, gains, and other support	75,355,804	22,454,961	97,810,765	8,782,969	2,047,167	108,640,901	126,293,125
Expenses:							
On-site assistance to member clubs and establishment of new clubs	23,801,530	799,810	24,601,340	—	—	24,601,340	31,098,271
Leadership training, development, and support of youth programs	31,441,202	586,488	32,027,690	—	—	32,027,690	28,187,823
Management and general	17,066,294	500,976	17,567,270	—	—	17,567,270	16,651,542
Fund-raising	4,288,537	114,437	4,402,974	—	—	4,402,974	4,359,356
Total expenses and losses	76,597,563	2,001,711	78,599,274	—	—	78,599,274	80,296,992
Changes in net assets before transfers	(1,241,759)	20,453,250	19,211,491	8,782,969	2,047,167	30,041,627	45,996,133
Other changes in net assets – transfers (note 7)	1,909,814	(1,909,814)	—	—	—	—	—
Change in net assets	668,055	18,543,436	19,211,491	8,782,969	2,047,167	30,041,627	45,996,133
Net assets at beginning of year	2,940,214	187,147,338	190,087,552	107,192,680	33,433,609	330,713,841	284,717,708
Net assets at end of year	\$ 3,608,269	205,690,774	209,299,043	115,975,649	35,480,776	360,755,468	330,713,841

See accompanying notes to consolidated financial statements.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Consolidated Statement of Activities

Year ended December 31, 2006

	Unrestricted			Temporarily restricted	Permanently restricted	Total
	Undesignated	Board-designated	Total			
Changes in net assets:						
Revenue, gains, and other support:						
Contributions	\$ 4,427,077	369,196	4,796,273	40,650,058	130,500	45,576,831
Government grants and contracts (note 8):						
Grants and contracts received	99,012,577	—	99,012,577	7,351,285	—	106,363,862
Less grants to affiliated clubs and other organizations	(88,034,219)	—	(88,034,219)	—	—	(88,034,219)
Net government grants and contracts	10,978,358	—	10,978,358	7,351,285	—	18,329,643
Income from funds held in trust by others (note 9)	226,277	—	226,277	2,039,491	—	2,265,768
Fund raising events:						
Revenue generated	6,103,698	—	6,103,698	879,117	—	6,982,815
Less direct costs (note 13)	(1,348,271)	—	(1,348,271)	—	—	(1,348,271)
Fund-raising events revenue in excess of direct costs	4,755,427	—	4,755,427	879,117	—	5,634,544
Net realized gain on sale of assets (note 4)	—	4,781,638	4,781,638	—	—	4,781,638
Member organization dues	7,954,864	—	7,954,864	—	—	7,954,864
Investment income, net of advisory and custody fees	11,823	3,043,175	3,054,998	1,230,038	—	4,285,036
Net realized and unrealized (losses) gains on investments	(80,876)	26,962,198	26,881,322	8,630,400	—	35,511,722
Other	1,754,367	120,371	1,874,738	78,341	—	1,953,079
Total revenue and gains	30,027,317	35,276,578	65,303,895	60,858,730	130,500	126,293,125
Net assets released from restrictions (note 11):						
Satisfaction of program restrictions	50,398,786	10,115,590	60,514,376	(60,514,376)	—	—
Expirations of time restrictions	1,121,117	—	1,121,117	(1,121,117)	—	—
Total net assets released from restrictions	51,519,903	10,115,590	61,635,493	(61,635,493)	—	—
Total revenue, gains, and other support	81,547,220	45,392,168	126,939,388	(776,763)	130,500	126,293,125
Expenses:						
On-site assistance to member clubs and establishment of new clubs	29,602,687	1,495,584	31,098,271	—	—	31,098,271
Leadership training, development, and support of youth programs	27,891,532	296,291	28,187,823	—	—	28,187,823
Management and general	16,409,557	241,985	16,651,542	—	—	16,651,542
Fund-raising	4,309,974	49,382	4,359,356	—	—	4,359,356
Total expenses and losses	78,213,750	2,083,242	80,296,992	—	—	80,296,992
Changes in net assets before transfers	3,333,470	43,308,926	46,642,396	(776,763)	130,500	45,996,133
Other changes in net assets – transfers (note 7)	(1,986,368)	1,986,368	—	—	—	—
Change in net assets	1,347,102	45,295,294	46,642,396	(776,763)	130,500	45,996,133
Net assets at beginning of year	1,593,112	141,852,044	143,445,156	107,969,443	33,303,109	284,717,708
Net assets at end of year	\$ 2,940,214	187,147,338	190,087,552	107,192,680	33,433,609	330,713,841

See accompanying notes to consolidated financial statements.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 30,041,627	45,996,133
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,512,158	787,116
Amortization of deferred bond issuance costs	40,586	83,184
Net realized and unrealized gains on investments	(23,675,860)	(35,511,722)
Gain on sale of assets	(1,719,331)	(4,781,638)
Contributions restricted for long-term investment	(2,072,167)	(3,715,500)
In-kind contributions of investments	(6,116,200)	(3,761,932)
Increase in assets held in custody for others	(700,942)	(1,105,560)
Decrease (increase) in membership dues and grants receivable	4,113,936	(543,487)
Increase in other receivables	(134,058)	(154,787)
Decrease (increase) in prepaid expenses and other advances	427,411	(349,858)
Decrease in contributions receivable	5,420,489	4,842,571
Increase in inventory of supplies	(46,334)	(11,668)
(Increase) decrease in split interest agreements	(198,332)	496
Decrease in accounts payable and accrued expenses	(3,616,975)	(2,397,464)
Increase in obligations for custodial funds	700,942	1,105,560
Increase (decrease) in annuities payable	998,156	(48,147)
Net cash provided by operating activities	<u>4,975,106</u>	<u>433,297</u>
Cash flows from investing activities:		
Proceeds from sales of investments	165,900,654	108,120,436
Purchase of investments	(162,249,902)	(116,922,261)
Proceeds from sale of assets, net of expenses	1,719,331	8,529,744
Purchases of property and equipment	(628,198)	(5,424,772)
Net cash provide by (used in) investing activities	<u>4,741,885</u>	<u>(5,696,853)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	2,072,167	3,715,500
Principal payments on capital leases	(468,947)	—
Principal payments on bonds payable	(2,500,000)	(5,000,000)
Net cash used in financing activities	<u>(896,780)</u>	<u>(1,284,500)</u>
Net increase (decrease) increase in cash	8,820,211	(6,548,056)
Cash at beginning of year	7,484,899	14,032,955
Cash at end of year	\$ <u>16,305,110</u>	<u>7,484,899</u>
Supplemental disclosure:		
Cash paid for interest	\$ <u>362,478</u>	<u>370,668</u>

See accompanying notes to consolidated financial statements.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Consolidated Statement of Functional Expenses

Year ended December 31, 2007

	Program services			Supporting services			Total expenses
	On-site assistance to member clubs and establishment of new clubs	Leadership training, development, and support of youth	Total program services	Supporting services		Total supporting services	
				Management and general	Fund raising		
Salary	\$ 9,306,100	7,823,182	17,129,282	8,092,724	2,878,227	10,970,951	28,100,233
Benefits	2,613,542	2,166,784	4,780,326	2,164,526	565,300	2,729,826	7,510,152
Payroll taxes	673,959	558,143	1,232,102	510,195	194,046	704,241	1,936,343
Total salaries and related expenses	12,593,601	10,548,109	23,141,710	10,767,445	3,637,573	14,405,018	37,546,728
Contractual services	2,367,620	3,221,119	5,588,739	4,608,786	81,391	4,690,177	10,278,916
Supplies	550,870	1,176,436	1,727,306	23,432	82,062	105,494	1,832,800
Telephone	465,769	247,063	712,832	99,498	60,125	159,623	872,455
Postage and shipping	274,481	438,970	713,451	115,592	38,978	154,570	868,021
Occupancy	1,000,985	635,584	1,636,569	176,010	29,374	205,384	1,841,953
Printing and artwork	264,791	1,356,437	1,621,228	133,906	39,108	173,014	1,794,242
Travel	2,239,375	1,444,793	3,684,168	497,583	231,084	728,667	4,412,835
Training conferences	776,742	1,524,120	2,300,862	213,869	26,112	239,981	2,540,843
Membership dues	18,350	17,292	35,642	58,873	3,582	62,455	98,097
Awards and grants	3,554,165	10,529,387	14,083,552	—	—	—	14,083,552
Interest expense	—	—	—	327,153	—	327,153	327,153
Miscellaneous	184,334	301,892	486,226	44,147	59,148	103,295	589,521
Expenses before depreciation	24,291,083	31,441,202	55,732,285	17,066,294	4,288,537	21,354,831	77,087,116
Depreciation	310,257	586,488	896,745	500,976	114,437	615,413	1,512,158
Total expenses	\$ 24,601,340	32,027,690	56,629,030	17,567,270	4,402,974	21,970,244	78,599,274

See accompanying notes to consolidated financial statements.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Consolidated Statement of Functional Expenses

Year ended December 31, 2006

	Program services			Supporting services			Total expenses
	On-site assistance to member clubs and establishment of new clubs	Leadership training, development, and support of youth	Total program services	Management and general	Fund raising	Total supporting services	
Salary	\$ 9,555,063	7,046,405	16,601,468	7,312,814	2,774,461	10,087,275	26,688,743
Benefits	2,646,947	1,901,072	4,548,019	1,903,654	495,080	2,398,734	6,946,753
Payroll taxes	678,731	480,389	1,159,120	445,667	177,209	622,876	1,781,996
Total salaries and related expenses	12,880,741	9,427,866	22,308,607	9,662,135	3,446,750	13,108,885	35,417,492
Contractual services	3,148,948	3,749,734	6,898,682	3,932,376	107,007	4,039,383	10,938,065
Supplies	562,190	1,274,371	1,836,561	131,007	88,696	219,703	2,056,264
Telephone	310,305	341,822	652,127	163,086	62,600	225,686	877,813
Postage and shipping	281,156	559,099	840,255	213,355	34,960	248,315	1,088,570
Occupancy	1,410,499	389,366	1,799,865	345,125	80,311	425,436	2,225,301
Printing and artwork	633,168	1,003,656	1,636,824	267,119	55,513	322,632	1,959,456
Travel	2,427,046	1,496,740	3,923,786	433,595	315,848	749,443	4,673,229
Training conferences	765,291	2,133,873	2,899,164	270,136	35,670	305,806	3,204,970
Membership dues	17,053	18,842	35,895	70,401	4,455	74,856	110,751
Awards and grants	8,319,452	7,305,007	15,624,459	—	—	—	15,624,459
Interest expense	—	—	—	305,127	—	305,127	305,127
Miscellaneous	142,069	191,156	333,225	616,990	78,164	695,154	1,028,379
Expenses before depreciation	30,897,918	27,891,532	58,789,450	16,410,452	4,309,974	20,720,426	79,509,876
Depreciation	200,353	296,291	496,644	241,090	49,382	290,472	787,116
Total expenses	\$ <u>31,098,271</u>	<u>28,187,823</u>	<u>59,286,094</u>	<u>16,651,542</u>	<u>4,359,356</u>	<u>21,010,898</u>	<u>80,296,992</u>

See accompanying notes to consolidated financial statements.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(1) Summary of Significant Accounting Policies

(a) Organization

Boys & Girls Clubs of America (BGCA) is a federally chartered, national organization that was formed to promote the health, social, educational, vocational, and character development of young people throughout the United States (U.S.). Through its national headquarters, five regional service centers, and government relations office in Washington, D.C., BGCA:

- Develops innovative program services for young people;
- Assists community leaders to form new clubs;
- Provides training, management consulting, and resource materials to clubs;
- Promotes greater public and media awareness of club work; and
- Addresses legislative and public policy issues affecting young people.

The accompanying consolidated financial statements include the financial position and operating results of BGCA's subsidiary alliance organizations in various states around the U.S. These alliance organizations are organized under Section 501(c)(4) of the Internal Revenue Code and were formed primarily to meet certain state statutory reporting requirements. Certain members of BGCA's senior management serve as members of the governing boards for certain of these alliance organizations. Such subsidiary alliance organizations numbered 45 at both December 31, 2007 and 2006.

The accompanying consolidated financial statements do not include the financial position and operating results of local member clubs, each of which is an autonomous corporation organized under the laws of the state in which it is located. Each club has its own independent board of directors which controls the local Boys & Girls Club, its program, and staff. BGCA, the national organization, does not exercise supervision, direction, or control of its local club members.

(b) Accrual Basis

The consolidated financial statements of BGCA have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred.

(c) Basis of Presentation

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. BGCA records all revenues and gains that are received and spent in the same fiscal year as unrestricted revenue. Any amounts not spent within the same fiscal year are recorded as temporarily restricted revenue if donor restrictions exist. Accordingly, net assets of BGCA and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of BGCA and/or the passage of time.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the BGCA. Generally, the donors of these assets permit the BGCA to use all or part of the income earned on related investments for general or specific purposes.

(d) *Investments*

Investments are reported at fair value, with the difference between fair value and cost (or fair value at date of gift) being recorded as unrealized gains (losses). The fair value of publicly traded fixed income and equity securities is based upon quoted market prices and exchanges rates if applicable. Fair values for private market investments and investments held through limited partnerships or commingled funds, are not as readily ascertainable. Fair value for these investments is established based on either external events which substantiate a change in fair value or a reasonable methodology that exists to capture and quantify changes in fair value. In some instances, those changes in fair value may require the use of estimates. Accordingly, such values may differ from the values that would have been used had a ready market for these investments existed.

Investments in private partnership interests are generally valued using the most current information provided by the general partner. General partners typically value privately held companies at cost or an adjusted value based on a recent arms' length transactions. Public companies are valued using quoted market prices and exchange rates, if applicable. Real estate partnerships and funds are valued based on appraisals of properties held and conducted by third-party appraisers retained by the general partner or investment manager. Valuations provided by the general partner and investment managers are evaluated by management, and management believes such values are reasonable at December 31, 2007 (see note 2).

(e) *Split Interest Agreements*

BGCA's split interest agreements with donors consist primarily of gift annuity agreements and irrevocable charitable remainder trusts for which BGCA serves as trustee. Contribution revenues are recognized when trusts (or annuity agreements) are established, after recording liabilities for the present value of the estimated future payments to be made to beneficiaries. The liabilities are adjusted annually for changes in the value of assets, accretion of the discount, and other changes in the estimates of future benefits.

BGCA is also the beneficiary of certain charitable lead trusts held and administered by others. The present value of the estimated future cash receipts from the trusts is recognized as an asset and contribution revenue at the date such trusts are established. The carrying value of the assets is adjusted annually for changes in fair value.

(f) *Inventories*

Inventories are stated at the lower of cost or market.

(g) *Tax Status*

BGCA is recognized as an organization exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code is subject to Federal

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

income tax. During 2007 and 2006 \$156,000 and \$298,000, respectively, was provided for income taxes, which was attributable to certain unrelated business income generated by BGCA.

BGCA's 45 state alliance subsidiaries are exempt from Federal income taxes under Section 501(c)(4) of the Internal Revenue Code.

(h) *Functional Allocation of Expenses*

The costs of providing BGCA's various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(i) *Fair Value of Financial Instruments*

The carrying amount of membership dues and grants receivable, other receivables, accounts payable and accrued expenses, and annuities payable approximates fair value because of the short maturity of these financial instruments. In addition, contributions receivable and split interest agreements to be realized after one year are recorded at the present value of the estimated future cash flows. Investments are reflected in the accompanying consolidated financial statements at fair value. The fair value of bonds payable at December 31, 2007 approximates carrying value due to the variable interest rates in effect and other terms of the bond agreement.

(j) *Use of Estimates*

Management of BGCA has made certain estimates and assumptions relating to the reporting of the allowance for uncollectible contributions receivable, valuation of certain investment securities without readily determinable fair values, depreciable lives of property and equipment, accrued expenses, and the disclosure of contingent liabilities to prepare the consolidated financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

(k) *New Accounting Pronouncement*

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 addresses the accounting for uncertainties in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely-than-not for recognition and de-recognition of tax positions taken or expected to be taken in a tax return. The determination of tax exempt status is considered to be a tax position taken with respect to the provisions of FIN 48. FIN 48 also provides related guidance on measurement, classification, interest and penalties, and disclosure. There was no material impact to BGCA's consolidated financial statements as a result of the adoption of FIN 48.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(2) Investments

Investments are carried at estimated fair value and consist of the following at December 31, 2007 and 2006:

	<u>2007</u>		<u>2006</u>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Short-term investments	\$ 866,953	866,953	1,896,052	1,896,052
U. S. Government securities	26,395,918	26,246,883	25,350,102	25,081,838
Mutual funds – fixed income	54,090,612	53,932,785	33,951,246	33,820,299
Mutual funds – equity	47,303,619	33,694,799	44,949,402	33,086,904
Investment in limited partnerships-domestic	47,026,211	35,352,395	40,951,616	31,369,096
Investment in limited partnerships-international	—	—	25,912,572	17,344,028
Corporate bonds	—	—	4,722	30,270
Corporate stocks-domestic	13,636,860	12,073,905	38,976,111	32,395,225
International REIT's	19,521,575	13,759,846	21,017,619	13,759,846
Private equity investments	99,189,893	75,000,000	48,179,949	35,000,000
	<u>308,031,641</u>	<u>250,927,566</u>	<u>281,189,391</u>	<u>223,783,558</u>
Less custodial fund investments	<u>(13,404,950)</u>	<u>(10,619,344)</u>	<u>(12,704,008)</u>	<u>(9,674,859)</u>
Total	<u>\$ 294,626,691</u>	<u>240,308,222</u>	<u>268,485,383</u>	<u>214,108,699</u>

Management is required to make certain estimates in the preparation of the consolidated financial statements. Among those potentially significant estimates are the valuation of investments without readily determined fair values. These estimates are subjective and require judgment regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. BGCA believes that the carrying amounts of these investments are a reasonable estimate of fair value. Estimates, by their nature, are based on judgment and available information. Changes in assumptions could have a material impact on the consolidated financial statements.

Custodial fund investments consist of assets which are being held on behalf of other organizations (see note 15).

Investment management expenses were approximately \$724,000 and \$861,000 for the years ended December 31, 2007 and 2006, respectively.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(3) Contributions Receivable

At December 31, 2007 and 2006, respectively, the accompanying consolidated statements of financial position include the following contributions receivable:

	2007	2006
Contributions receivable	\$ 35,671,960	41,791,612
Less:		
Unamortized discount	(691,907)	(1,223,687)
Allowance for uncollectible contributions	(542,497)	(709,880)
Net unconditional promises to give	\$ 34,437,556	39,858,045
Amounts due in:		
Less than one year	\$ 22,411,949	22,209,362
One to five years	13,260,011	19,582,250
	\$ 35,671,960	41,791,612

Contributions to be received after one year are discounted at the appropriate risk free interest rate at the time unconditional promise to give is made. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions on the use of the contributions. Estimated future cash flows to be received after one year were discounted at December 31, 2007 and 2006 at rates ranging from 1.26% to 5.0%.

(4) Land, Buildings, and Equipment

Land and buildings, as well as furnishings and equipment, are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Land, buildings, leasehold improvements, furniture, fixtures and equipments consist of the following at December 31, 2007 and 2006, respectively:

	2007	2006	Estimated useful lives
Land	\$ 10,848,690	10,848,690	—
Buildings	16,285,835	16,272,420	50 years
Leasehold improvements	101,485	208,933	10 years
Furniture, fixtures, and equipment	6,371,958	6,537,361	5-7 years
	33,607,968	33,867,404	
Less accumulated depreciation and amortization	(3,992,382)	(3,367,858)	
	\$ 29,615,586	30,499,546	

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

On February 27, 2006 the sale of the National Office headquarters was closed for approximately \$8.5 million. BGCA recognized a gain of \$4.8 million related to the sale of the National Office headquarters and disposal of related furniture, fixtures and equipment.

On January 17, 2007, BGCA entered into an agreement granting a shared nonexclusive driveway easement for consideration of \$1.7 million, net of expenses. The net proceeds of \$1.7 million was recorded as a realized gain in the accompanying consolidated statement of activities for the year ended December 31, 2007.

(5) Retirement Plans

BGCA has a noncontributory defined contribution pension plan, covering all eligible employees. Each participating employee receives the pension purchasable by funds accumulated from annual contributions based on a percentage of compensation. Pension expense for 2007 and 2006 totaled approximately \$2,153,000 and \$1,974,000, respectively.

In 2005, the Board of Governors approved a supplemental executive retirement plan for the benefit of a member of a senior management whereby a retirement benefit will be earned ratably by the executive during the service term as defined in the plan agreement. The vested amount will be paid to the executive upon retirement, disability, or termination without cause as defined in the plan agreement. The liability recorded in connection with this plan as of December 31, 2007 and 2006 is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

BGCA also has a retirement fund totaling \$662,000 and \$604,000 at December 31, 2007 and 2006 respectively, included in unrestricted net assets designated by the Board.

(6) Assets Held in Deferred Compensation Accounts

BGCA entered into deferred compensation agreements with certain key officers, whereby sums will be paid according to the terms of the agreements into accounts maintained by BGCA for the purpose of salary continuation upon retirement. This plan is subject to certain stipulations outlined within the agreements, one of which is the officers' continued employment with BGCA. Employee contributions into these accounts during 2007 and 2006 totaled \$98,793 and \$91,850, respectively. The liability for deferred compensation under these agreements totaled \$737,337 and \$560,595 at December 31, 2007 and 2006, respectively.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(7) Transfers

Transfers of net assets for the years ended December 31, 2007 and 2006 consist of the following:

	2007		2006	
	Unrestricted net assets		Unrestricted net assets	
	Undesignated	Board-designated	Undesignated	Board-designated
Fixed asset acquisitions transferred to Board-designated net assets	\$ (627,633)	627,633	(229,017)	229,017
Investment income transferred in accordance with Board spend rate policy	3,083,754	(3,083,754)	—	—
Transfer of year-end balance of general operating activities to Board-designated net assets	<u>(546,307)</u>	<u>546,307</u>	<u>(1,757,351)</u>	<u>1,757,351</u>
	<u>\$ 1,909,814</u>	<u>(1,909,814)</u>	<u>(1,986,368)</u>	<u>1,986,368</u>

(8) Government Grants and Contracts

During 2007 and 2006, BGCA received \$97,476,766 and \$106,363,862, respectively, in various government grants and contracts. Of this amount, \$86,236,168 and \$88,034,219 was passed through to certain affiliated clubs during 2007 and 2006, respectively. The pass through amounts are functionalized as follows:

	2007	2006
Grants for on-site assistance to member clubs and establishment of new clubs	\$ 49,653,992	62,756,748
Grants for leadership training, development, and support of youth programs	<u>36,582,176</u>	<u>25,277,471</u>
	<u>\$ 86,236,168</u>	<u>88,034,219</u>

(9) Trust Income

Income from net assets held in trust by others totaling \$1,695,180 and \$2,265,768 in 2007 and 2006, respectively, relates to a separately administered trust, established under the will of John B. O'Hara. (the Trust). The income from the Trust must be used by BGCA for the purpose of "maintaining and supporting one or more chapters of the Boys' Clubs of America located in Dallas County, Texas, and not elsewhere, provided however, that at least one chapter of Boys' Clubs of America shall be located in the City of Dallas, Dallas County, Texas." BGCA has designated the Boys & Girls Clubs of Greater Dallas of Dallas County, Texas, to receive such maintenance and support.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(10) Restricted Net Assets

Temporarily restricted net assets at December 31, 2007 and 2006 are available for the following purposes or periods:

	2007	2006
On-site assistance to member clubs and establishment of new clubs	\$ 43,450,643	41,731,891
Leadership training, development and support of youth programs	35,459,579	25,789,222
Available for future periods	37,065,427	39,671,567
	\$ 115,975,649	107,192,680

Income from permanently restricted net assets is primarily available to provide scholarships, awards, technical assistance and support to local clubs.

(11) Net Assets Released From Restrictions

During 2007 and 2006, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2007	2006
Purpose restrictions accomplished:		
On-site assistance to member clubs and establishment of new clubs	\$ 8,930,351	22,522,348
Leadership training, development and support of youth programs	48,073,712	37,992,028
	57,004,063	60,514,376
Time restrictions expired – passage of specified time	2,841,341	1,121,117
	\$ 59,845,404	61,635,493

(12) Unrestricted Net Assets – Board-Designated

Board-designated net assets consist of the following at December 31, 2007 and 2006:

	2007	2006
Reserve fund (functioning as quasi-endowment)	\$ 148,810,158	134,355,081
Gains on endowment	24,088,739	21,708,042
Land, buildings, and equipment	21,126,017	19,041,030
Other board-designated	11,665,860	12,043,185
	\$ 205,690,774	187,147,338

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(13) Fund-Raising Event Direct Costs

BGCA holds periodic fund-raising events and reports the revenues generated, net of any direct costs, as revenue, gains, and other support in the accompanying consolidated statement of activities. These direct costs during 2007 and 2006 are as follows:

	2007	2006
Supplies	\$ 58,362	2,704
Printing	60,836	68,912
Postage	28,267	44,049
Travel	13,110	13,046
Banquets and space rental	898,147	1,188,496
Entertainment, event management, and speakers	37,166	31,064
	\$ 1,095,888	1,348,271

(14) Leases

During 2006 and 2007, BGCA acquired equipment under capital leases. BGCA is obligated under noncancelable long-term operating leases for rental of office facilities, equipment, and automobiles and capital leases for equipment as follows:

	Operating leases	Capital leases
Years ending December 31:		
2008	\$ 682,858	338,498
2009	596,272	291,665
2010	533,088	240,179
2011	544,924	119,227
2012 and thereafter	2,429,086	—
	\$ 4,786,228	989,569

Rental expense under operating leases totaled approximately \$670,000 and \$1,218,000 for the periods ended December 31, 2007 and 2006, respectively.

BGCA leases portion of its National Office facility and subleases leased space in Washington DC no longer used by BGCA to outside tenants. Rental income to be received in future periods under these leases is as follows:

Years ending December 31:	
2008	\$ 1,208,700
2009	933,000
	\$ 2,141,700

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Net rental income totaled approximately \$404,000 and \$520,000 for the years ended December 31, 2007 and 2006, respectively.

(15) Obligations for Custodial Funds

BGCA has custody of certain assets which are being held and disbursed only on instructions of the person or organization from which they were received. These custodial funds and related obligations are included in the accompanying statement of financial position; however, additions to/disbursements from these funds are not considered part of BGCA's operations.

The changes in custodial funds for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
Gains on investments and other receipts	\$ 1,207,353	1,917,788
Disbursements	(506,411)	(812,228)
Net change for the year	700,942	1,105,560
Assets held in custody for others:		
Beginning of year	12,704,008	11,598,448
End of year	\$ 13,404,950	12,704,008

(16) Bonds Payable

On September 1, 2005, BGCA issued tax-exempt bonds payable consisting of \$15,000,000 of Development Authority of Fulton County Revenue Bonds (Boys & Girls Clubs of America Project) Series 2005 payable in annual interest installments until September 2025, principal in fixed amounts of \$500,000, and interest due annually from September 2005 through September 2025; interest at weekly rates as determined by the Remarketing Agent (3.44% at December 31, 2007) secured by a bank letter of credit. During the years ended December 31, 2007 and 2006, principal repayments totaling \$2,500,000 and \$5,000,000, respectively, were made to reduce the outstanding bonds.

Future bond maturities are as follows:

	Amount
2008	\$ 500,000
2009	500,000
2010	500,000
2011	500,000
Thereafter	5,500,000
	\$ 7,500,000

BGCA's bonds payable provide for certain financial and nonfinancial covenants, including a minimum total net asset requirement of \$185 million and a minimum debt service coverage ratio of 1.0. Management believes that BGCA was in compliance with these covenants throughout 2006 and 2007.

BOYS & GIRLS CLUBS OF AMERICA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(17) Commitments and Contingencies

(a) *Federal Audits*

Federally funded programs are routinely subject to audit which could result in claims against the resources of BGCA. During October 2006, The Office of Justice Programs (OJP) conducted a financial monitoring and assistance visit to examine the policies and procedures in place to control the financial aspects of certain Department of Justice awards. Management has responded to the OJP's document requests and preliminary findings. BGCA is awaiting final resolution but does not believe it will have a material adverse effect on the consolidated financial statements.

(b) *Legal Matters*

BGCA is subject to claims and legal actions arising in the ordinary course of business. In the opinion of management, the outcome of such actions will not have a material adverse effect on the consolidated financial position of BGCA.

SUPPLEMENTARY INFORMATION

**BOYS & GIRLS CLUBS OF AMERICA – NATIONAL ORGANIZATION
(EXCLUDING SUBSIDIARY ORGANIZATIONS)**

Statements of Financial Position – Information

December 31, 2007 and 2006

Assets	2007	2006
Cash	\$ 11,605,428	2,904,037
Investments	294,626,691	268,485,383
Assets held in custody for others	13,404,950	12,704,008
Membership dues and grants receivable, net	3,418,137	8,369,638
Contributions receivable	34,437,556	39,858,045
Assets held in deferred compensation accounts	737,337	560,595
Split interest agreements	3,587,247	3,388,915
Land, buildings, and equipment, net	29,613,001	30,499,135
Other assets	1,503,998	1,783,570
	<hr/>	<hr/>
Total assets	\$ 392,934,345	368,553,326
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 11,154,897	15,110,468
Obligations for capital leases	989,569	1,458,516
Obligations for custodial funds	13,404,950	12,704,008
Liability under deferred compensation agreements	737,337	560,595
Annuities payable	1,378,278	380,122
Bonds Payable	7,500,000	10,000,000
	<hr/>	<hr/>
Total liabilities	35,165,031	40,213,709
	<hr/>	<hr/>
Net assets:		
Unrestricted:		
Undesignated	1,274,752	1,192,320
Board-designated	205,688,189	187,146,927
	<hr/>	<hr/>
	206,962,941	188,339,247
Temporarily restricted	115,325,597	106,566,761
Permanently restricted	35,480,776	33,433,609
	<hr/>	<hr/>
Total net assets	357,769,314	328,339,617
	<hr/>	<hr/>
Commitments and contingencies		
	<hr/>	<hr/>
Total liabilities and net assets	\$ 392,934,345	368,553,326
	<hr/> <hr/>	<hr/> <hr/>

See accompanying independent auditors' report.

**BOYS & GIRLS CLUBS OF AMERICA – NATIONAL ORGANIZATION
(EXCLUDING SUBSIDIARY ORGANIZATIONS)**

Statement of Activities – Information

Year ended December 31, 2007

(with comparative totals for 2006)

	Unrestricted			Temporarily restricted	Permanently restricted	Totals	
	Undesignated	Board- designated	Total			2007	2006
Changes in net assets:							
Revenue, gains, and other support:							
Contributions	\$ 3,273,749	762,111	4,035,860	45,052,455	2,047,167	51,135,482	45,523,851
Government grants and contracts:							
Grants and contracts received	63,182,808	—	63,182,808	—	—	63,182,808	83,839,472
Less grants to affiliated clubs and other organizations	(54,112,869)	—	(54,112,869)	—	—	(54,112,869)	(67,733,344)
Net government grants and contracts	9,069,939	—	9,069,939	—	—	9,069,939	16,106,128
Income from funds held in trust by others	169,158	—	169,158	1,526,022	—	1,695,180	2,265,768
Fund raising events:							
Revenue generated	5,842,997	—	5,842,997	700,264	—	6,543,261	6,982,815
Less direct costs	(1,095,888)	—	(1,095,888)	—	—	(1,095,888)	(1,348,271)
Fund-raising events revenue in excess of direct costs	4,747,109	—	4,747,109	700,264	—	5,447,373	5,634,544
Net realized gain on sale of assets	—	1,719,331	1,719,331	—	—	1,719,331	4,781,638
Member organization dues	5,863,128	—	5,863,128	—	—	5,863,128	5,702,565
Investment income, net of advisory and custody fees	—	2,933,484	2,933,484	1,239,371	—	4,172,855	4,248,988
Net realized and unrealized (losses) gains on investments	(27,914)	16,986,958	16,959,044	6,716,816	—	23,675,860	35,511,722
Other	1,351,141	111,065	1,462,206	(320,878)	—	1,141,328	1,855,957
Total revenue and gains	24,446,310	22,512,949	46,959,259	54,914,050	2,047,167	103,920,476	121,631,161
Net assets released from restrictions:							
Satisfaction of program restrictions	43,371,861	(57,988)	43,313,873	(43,313,873)	—	—	—
Expirations of time restrictions	2,841,341	—	2,841,341	(2,841,341)	—	—	—
Total net assets released from restrictions	46,213,202	(57,988)	46,155,214	(46,155,214)	—	—	—
Total revenue, gains, and other support	70,659,512	22,454,961	93,114,473	8,758,836	2,047,167	103,920,476	121,631,161
Expenses:							
On-site assistance to member clubs and establishment of new clubs	23,801,530	799,810	24,601,340	—	—	24,601,340	31,098,271
Leadership training, development, and support of youth programs	30,028,138	586,488	30,614,626	—	—	30,614,626	26,292,971
Management and general	14,371,179	500,660	14,871,839	—	—	14,871,839	14,482,536
Fund-raising	4,288,537	114,437	4,402,974	—	—	4,402,974	4,359,356
Total expenses and losses	72,489,384	2,001,395	74,490,779	—	—	74,490,779	76,233,134
Changes in net assets before transfers	(1,829,872)	20,453,566	18,623,694	8,758,836	2,047,167	29,429,697	45,398,027
Other changes in net assets – transfers	1,912,304	(1,912,304)	—	—	—	—	—
Change in net assets	82,432	18,541,262	18,623,694	8,758,836	2,047,167	29,429,697	45,398,027
Net assets at beginning of year	1,192,320	187,146,927	188,339,247	106,566,761	33,433,609	328,339,617	282,941,590
Net assets at end of year	\$ 1,274,752	205,688,189	206,962,941	115,325,597	35,480,776	357,769,314	328,339,617

See accompanying independent auditors' report.

**BOYS & GIRLS CLUBS OF AMERICA – NATIONAL ORGANIZATION
(EXCLUDING SUBSIDIARY ORGANIZATIONS)**

Statements of Cash Flows – Information

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 29,429,697	45,398,027
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,511,842	785,880
Amortization of deferred bond issuance costs	40,586	83,184
Net realized and unrealized gains on investments	(23,675,860)	(35,511,722)
Gain on sale of assets	(1,719,331)	(4,781,638)
Contributions restricted for long-term investment	(2,172,167)	(3,715,500)
In-kind contributions of investments	(6,116,200)	(3,761,932)
Increase in assets held in custody for others	(700,942)	(1,105,560)
Decrease (increase) in membership dues and grants receivable	4,951,501	(352,171)
Increase in other receivables	(142,091)	(156,669)
Decrease (increase) in prepaid expenses and other advances	427,411	(349,858)
Decrease in contributions receivable	5,420,489	4,842,571
Increase in inventory of supplies	(46,334)	(11,668)
(Increase) decrease in split interest agreements	(198,332)	496
Decrease in accounts payable and accrued expenses	(3,955,571)	(2,783,556)
Increase in obligations for custodial funds	700,942	1,105,560
Increase (decrease) in annuities payable	998,156	(48,147)
Net cash provided by (used in) operating activities	<u>4,753,796</u>	<u>(362,703)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	165,900,654	108,120,436
Purchase of investments	(162,249,902)	(116,922,261)
Proceeds from sale of assets, net of expenses	1,719,331	8,529,744
Purchases of property and equipment	(625,708)	(5,425,667)
Net cash provided by (used in) investing activities	<u>4,744,375</u>	<u>(5,697,748)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	2,172,167	3,715,500
Principal payments on bonds payable	(2,500,000)	(5,000,000)
Principal payments on capital leases	(468,947)	—
Net cash provided by (used in) financing activities	<u>(796,780)</u>	<u>(1,284,500)</u>
Net increase in cash	8,701,391	(7,344,951)
Cash at beginning of year	2,904,037	10,248,988
Cash at end of year	<u>\$ 11,605,428</u>	<u>2,904,037</u>

See accompanying independent auditors' report.

**BOYS & GIRLS CLUBS OF AMERICA – NATIONAL ORGANIZATION
(EXCLUDING SUBSIDIARY ORGANIZATIONS)**

Statement of Functional Expenses – Information

Year ended December 31, 2007
(with comparative totals for 2006)

	Program services			Supporting services			Total expenses	
	On-site assistance to member clubs and establishment of new clubs	Leadership training, development, and support of youth	Total program service	Management and general	Fund raising	Total supporting services	2007	2006
Salary	\$ 9,306,100	7,823,182	17,129,282	8,092,724	2,878,227	10,970,951	28,100,233	26,688,743
Benefits	2,613,542	2,166,784	4,780,326	2,164,526	565,300	2,729,826	7,510,152	6,946,753
Payroll taxes	673,959	558,143	1,232,102	510,195	194,046	704,241	1,936,343	1,781,996
Total salaries and related expenses	12,593,601	10,548,109	23,141,710	10,767,445	3,637,573	14,405,018	37,546,728	35,417,492
Contractual services	2,367,620	2,372,559	4,740,179	2,054,095	81,391	2,135,486	6,875,665	7,298,673
Supplies	550,870	1,139,913	1,690,783	4,907	82,062	86,969	1,777,752	2,042,180
Telephone	465,769	235,960	701,729	87,860	60,125	147,985	849,714	869,198
Postage and shipping	274,481	437,054	711,535	113,751	38,978	152,729	864,264	1,085,076
Occupancy	1,000,985	635,584	1,636,569	168,983	29,374	198,357	1,834,926	2,225,301
Printing and artwork	264,791	1,354,366	1,619,157	131,627	39,108	170,735	1,789,892	1,953,497
Travel	2,239,375	1,400,880	3,640,255	475,241	231,084	706,325	4,346,580	4,640,889
Training conferences	776,742	1,229,333	2,006,075	175,609	26,112	201,721	2,207,796	2,928,649
Membership dues	18,350	17,117	35,467	58,873	3,582	62,455	97,922	110,322
Awards and grants	3,554,165	10,390,937	13,945,102	—	—	—	13,945,102	15,601,489
Interest expense	—	—	—	327,153	—	327,153	327,153	305,127
Miscellaneous	184,334	266,326	450,660	5,635	59,148	64,783	515,443	969,361
Expenses before depreciation	24,291,083	30,028,138	54,319,221	14,371,179	4,288,537	18,659,716	72,978,937	75,447,254
Depreciation	310,257	586,488	896,745	500,660	114,437	615,097	1,511,842	785,880
Total expenses	\$ 24,601,340	30,614,626	55,215,966	14,871,839	4,402,974	19,274,813	74,490,779	76,233,134

See accompanying independent auditors' report.