

**BOYS AND GIRLS CLUBS
OF THE PENINSULA**

JUNE 30, 2008

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Boys and Girls Clubs of the Peninsula

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Independent Auditors' Report

BOARD OF DIRECTORS
BOYS AND GIRLS CLUBS OF THE PENINSULA
Menlo Park, California

We have audited the accompanying statement of financial position of the **Boys and Girls Clubs of the Peninsula** (the Club) as of June 30, 2008 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Club's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Club's fiscal year ended June 30, 2007 financial statements, and in our report dated November 12, 2007, we expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Boys and Girls Clubs of the Peninsula as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

October 8, 2008

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Boys and Girls Clubs of the Peninsula

Statement of Financial Position

<i>June 30,</i>	2008	2007
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,141,520	\$ 630,678
Investments	5,224,273	5,834,023
Unconditional promises to give, net, current portion	341,798	236,250
Other receivables	176,294	152,982
Prepaid expenses and deposits	53,655	56,067
Total current assets	6,937,540	6,910,000
Unconditional Promises to Give , net, noncurrent portion	818,674	734,491
Property, Equipment and Improvements , net	7,358,195	7,604,844
Total assets	\$ 15,114,409	\$ 15,249,335
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 287,323	\$ 301,248
Total current liabilities	287,323	301,248
Net Assets:		
Unrestricted:		
Board designated:		
Maintenance reserve	564,829	523,659
Other purposes	3,309,434	3,905,699
Undesignated	7,850,150	7,601,223
Total unrestricted net assets	11,724,413	12,030,581
Temporarily restricted	1,177,673	992,506
Permanently restricted	1,925,000	1,925,000
Total net assets	14,827,086	14,948,087
Total liabilities and net assets	\$ 15,114,409	\$ 15,249,335

Boys and Girls Clubs of the Peninsula

Statement of Activities

Year Ended June 30, 2008 (with comparative totals for the year ended June 30, 2007)

	2008			2007	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and Revenues:					
Contributions:					
Individuals	\$ 1,472,003	\$ 142,167		\$ 1,614,170	\$ 2,003,623
Corporations	276,351			276,351	299,292
Foundations	657,669	675,500		1,333,169	1,379,653
Civic/other	271,207			271,207	16,000
Total contributions	2,677,230	817,667		3,494,897	3,698,568
Investment income:					
Interest and dividends	254,765			254,765	260,248
Realized (loss) gain on sale of investments	(147,112)			(147,112)	128,773
Unrealized (loss) gain on investments	(443,426)			(443,426)	386,809
Total investment (loss) income	(335,773)			(335,773)	775,830
Other revenue:					
Municipal revenue	816,263			816,263	610,973
Special events	440,191	268,500		708,691	339,695
Membership revenue	66,281			66,281	93,723
Miscellaneous	58,752			58,752	2,777
Total other revenue	1,381,487	268,500		1,649,987	1,047,168
Net assets released from restrictions	901,000	(901,000)			
Total support and revenue	4,623,944	185,167		4,809,111	5,521,566
Expenses:					
Programs	3,719,616			3,719,616	3,508,698
Management and general	633,677			633,677	649,329
Fundraising	576,819			576,819	512,153
Total expenses	4,930,112			4,930,112	4,670,180
Change in net assets	(306,168)	185,167		(121,001)	851,386
Net Assets - Beginning of year	12,030,581	992,506	\$ 1,925,000	14,948,087	14,096,701
Net Assets - End of year	\$ 11,724,413	\$ 1,177,673	\$ 1,925,000	\$ 14,827,086	\$ 14,948,087

The accompanying notes are an integral part of this statement.

Boys and Girls Clubs of the Peninsula

Statement of Functional Expenses

Year Ended June 30, 2008 (with comparative totals for the year ended June 30, 2007)

	2008				2007	
	Programs	Management and General	Fundraising	Total	Total	
Personnel						
Salaries	\$ 2,199,672	\$ 301,045	\$ 283,162	\$ 2,783,879	\$ 2,514,306	
Payroll taxes and benefits	391,180	147,031	72,582	610,793	568,880	
Total personnel expense	2,590,852	448,076	355,744	3,394,672	3,083,186	
Facilities						
Depreciation	335,311	788		336,099	344,965	
Insurance	31,260	3,945		35,205	44,618	
Utilities	102,228			102,228	97,047	
Repairs and maintenance	149,573			149,573	143,444	
All other facilities expense	9,547			9,547		
Total facilities	627,919	4,733		632,652	630,074	
Program Supplies	330,237			330,237	410,267	
Other						
Special events			141,831	141,831	102,679	
Bad debt expense		21,839		21,839	7,067	
Training	31,396	26,746	1,075	59,217	66,086	
Professional fees		31,710		31,710	27,850	
Telecommunication	52,522	12,245		64,767	64,432	
Office supplies	21,980	6,686	20,080	48,746	47,725	
Transportation	33,973	180	270	34,423	30,524	
Dues	2,200	15,919		18,119	15,931	
Remaining other expenses	28,537	65,543	57,819	151,899	184,359	
Total other expenses	170,608	180,868	221,075	572,551	546,653	
Total expenses	\$ 3,719,616	\$ 633,677	\$ 576,819	\$ 4,930,112	\$ 4,670,180	

Boys and Girls Clubs of the Peninsula

Statement of Cash Flows

<i>Years Ended June 30,</i>	2008	2007
Cash Flows Provided by Operating Activities:		
Change in net assets	\$ (121,001)	\$ 851,386
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	336,099	344,965
Net realized/unrealized loss (gain) on investments	590,538	(515,582)
Donated equipment	(50,865)	(20,996)
Loss on disposal of equipment		7,549
Reserve for auction preferreds	12,500	
Changes in operating assets and liabilities:		
Unconditional promises to give and other receivables	(213,043)	(748,591)
Prepaid expenses and deposits	2,412	(23,741)
Accounts payable and accrued expenses	(13,925)	51,212
Net cash provided (used) by operating activities	542,715	(53,798)
Cash Flows from Investing Activities:		
Purchases of property, equipment and leaseholds	(38,585)	(21,448)
Proceeds from sale of investments	18,911,188	584,084
Purchase of investments	(18,904,476)	(704,344)
Net cash used in investing activities	(31,873)	(141,708)
Change in Cash and Cash Equivalents	510,842	(195,506)
Cash and Cash Equivalents - Beginning of year	630,678	826,184
Cash and Cash Equivalents - End of Year	\$ 1,141,520	\$ 630,678

Boys and Girls Clubs of the Peninsula

Notes To Financial Statements

Note 1 - Description of the Organization:

The Boys and Girls Clubs of the Peninsula (the Club) provides places where young people aged 6 - 18 are welcome and can belong after school and all day during the summer. At each of the Club's now nine sites located in the most challenged areas of Menlo Park, East Palo Alto and Redwood City, California, staff and volunteers work through a broad range of programs to guide and inspire youth to develop the attitudes and life skills they need to thrive. Founded in 1958, the Club is now regarded as one of the most comprehensive youth development organizations in the San Francisco Bay Area. The Club's programs focus on Academics, Science and Technology, Social Education and Life Skills, Athletics and Fitness and the Arts. Many of these programs are offered in partnership with local schools and other community organizations. The Club's annual budget is dependent on a balanced combination of support from individuals, foundations, corporations and public partners.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

The Club prepares its financial statements on the accrual basis of accounting.

b. Description of Net Assets

Unrestricted Net Assets - the portion of net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations. These net assets are intended for use by management and the Board of Directors for general operations. These net assets also include net assets that have been designated by the Board for certain uses.

Temporarily Restricted Net Assets - the portion of net assets which use is limited by donor - imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Club. At June 30, 2008 and 2007, these net assets are comprised of unconditional promises to give in future years discounted to their net present value and contributions that have been restricted for various programs.

Permanently Restricted Net Assets - the portion of net assets which use is limited by donor - imposed stipulations that neither expire by passage of time nor can be removed by actions of the Club. At June 30, 2008 and 2007, these net assets represent the Club's endowment. Earnings thereon are available for general operations of the Club.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of short-term, highly liquid investments and investments with original maturity dates of three months or less and do not include cash held in investment accounts.

Boys and Girls Clubs of the Peninsula

Notes To Financial Statements

d. Investments

Investments are valued at fair value, based on quoted market prices, with realized and unrealized gains and losses reflected in the Statement of Activities.

e. Unconditional Promises to Give

Unconditional promises to give are recorded at their net realizable value. Unconditional promises to give which are due in more than one year have been discounted to the present value of their estimated future cash flows.

f. Property, Equipment and Improvements

The Club records property, equipment and improvements at cost of acquisition or construction or, if donated, at the fair market value at the date of donation. Depreciation is computed using the straight-line method with lives ranging from 3 to 40 years.

g. Revenue Recognition

Contributions are recorded at their fair value and are recognized as revenue when the donor makes an unconditional promise to give to the Club. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the same year in which the contributions are recognized. Net assets released from restrictions during the years ended June 30, 2008 and 2007 represent payments on unconditional promises to give and funds used for their restricted purposes.

Special event revenue is recognized when the event occurs.

Non-cash donations are recorded at the fair value of the gift at the date of the donation.

Services, relating to leadership and help with member activities and programs, are donated by various individuals. Many generous people contribute many hours of time and expertise to assist with the administration of various programs. No revenue has been recognized for these services.

h. Income Taxes

The Club has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. In addition, the Club has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

Boys and Girls Clubs of the Peninsula

Notes To Financial Statements

i. Allocation of Expenses

Certain indirect costs have been allocated by management among programs and supporting services based on estimates of time, space and other factors.

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

k. Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not in sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Club's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

l. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (SFAS No. 157), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles (GAAP). SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except for nonfinancial assets and nonfinancial liabilities of which the effective date has been delayed for one year.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* (SFAS No. 159), which permits entities to choose to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value.

The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently. SFAS No. 159 is expected to expand the use of fair value measurement, which is consistent with the FASB's long-term measurement objectives for accounting for financial instruments. SFAS No. 159 is effective for fiscal years that begin after November 15, 2007.

The Club is currently evaluating the impact the aforementioned statements will have on the Club's financial statements, but does not believe that the adoption of SFAS No. 157 and SFAS No. 159 will have a material impact on its financial position and changes in its net assets.

Boys and Girls Clubs of the Peninsula

Notes To Financial Statements

Note 3 - Investments:

Investments, at fair value, are comprised of the following at June 30, 2008 and 2007:

	2008	2007
Mutual funds	\$ 4,966,388	\$ 77,520
Cash funds	130,832	741,070
Corporate stocks	127,053	3,635,805
Corporate bonds		895,664
Treasury notes		483,964
	<hr/>	<hr/>
	\$ 5,224,273	\$5,834,023

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the Clubs' investments may have incurred a significant decline in fair value since year-end.

Note 4 - Unconditional Promises to Give:

Unconditional promises to give are comprised of the following at June 30, 2008 and 2007:

	2008	2007
Pledges	\$ 1,196,288	\$1,024,061
Less: Allowance for doubtful accounts	(13,589)	(13,925)
Discount to net present value (at 3%) of estimated future cash flows	(22,227)	(39,395)
	<hr/>	<hr/>
Net unconditional promises to give	\$ 1,160,472	\$ 970,741

Net unconditional promises to give are expected to be collected as follows as of June 30, 2008:

Due in one year or less	\$ 341,798
Due in one to five years	818,674
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	\$ 1,160,472

Boys and Girls Clubs of the Peninsula

Notes To Financial Statements

Note 5 - Property, Equipment and Improvements:

At June 30, 2008 and 2007, property, equipment and improvements and accumulated depreciation are as follows:

	2008	2007
Buildings, improvements and landscaping	\$ 9,462,629	\$ 9,432,629
Equipment	1,106,697	1,064,323
Vehicles	92,394	75,318
	<hr/>	<hr/>
	10,661,720	10,572,270
Less accumulated depreciation	(3,303,525)	(2,967,426)
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	\$ 7,358,195	\$ 7,604,844

Note 6 - Commitments:

The Club has entered into several exchange agreements to lease facilities. These exchange agreements require the Club to perform certain duties in return for lease payments of \$1 per year. The City of Menlo Park owns the land upon which the Menlo Park facility is situated and leases the facility to the Club. The lease runs for 25 years (June, 2023) with options to renew. The total rent of \$25 was paid by the Club to cover the original lease term. The building and improvements, constructed by the Club, will revert to the City of Menlo Park in the event that the Club abandons the premises, which is not deemed probable by management. The Redwood City facility is situated on land owned by and leased from Redwood City at a cost of \$1 per year. The lease runs for 42 years (January, 2029). The Ravenswood School District owns the school in which the Club's Center for a New Generation is situated. No lease obligation currently exists for that facility. The Ravenswood School District also owns the land upon which the East Palo Alto facility exists. The lease runs for 66 years (May, 2064) at a charge of \$1 per year, which was prepaid by the Club.

Note 7 - Employee Benefits:

The Club maintains a contributory pension plan that covers all full-time employees that have been with the Club for at least 24 months.

Boys and Girls Clubs of the Peninsula

Notes To Financial Statements

Note 8 - Concentrations of Risk:

The Club has defined its financial instruments, which are potentially subject to risk as cash, cash equivalents, investments and unconditional promises to give.

At times, the Club has cash deposits in financial institutions in excess of federally insured limits. Investments are held in various holdings in order to limit the concentration of market risk.

For the year ended June 30, 2008, approximately 15% of total contribution revenue was provided from three foundations and two individuals. In the previous year, 14% of the Club's total contributions were provided by one foundation and two individuals.