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**BOYS HOPE GIRLS HOPE**  
*FINANCIAL STATEMENTS*  
*JUNE 30, 2011*

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## Independent Auditors' Report

Board of Directors  
Boys Hope Girls Hope  
St. Louis, Missouri

We have audited the accompanying statement of financial position of Boys Hope Girls Hope (the Organization), a not-for-profit organization, as of June 30, 2011 and 2010, 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 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 the Organization'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 financial statements referred to above present fairly, in all material respects, the financial position of Boys Hope Girls Hope as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*RubinBrown LLP*

October 4, 2011

**BOYS HOPE GIRLS HOPE**

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**STATEMENT OF FINANCIAL POSITION**

**Assets**

	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$ 147,466	\$ 196,838
Pledges receivable (Note 3)	133,218	142,613
Investments (Note 4)	6,085,265	4,241,402
Due from affiliates (Note 6)	492,522	469,682
Retirement plan assets (Note 5)	212,155	183,488
Property and equipment (Notes 7, 8 and 9)	701,601	785,447
Other assets	7,262	32,562
Investments restricted for endowment (Note 4)	8,343,044	8,343,044
<b>Total Assets</b>	<b>\$ 16,122,533</b>	<b>\$ 14,395,076</b>

**Liabilities And Net Assets**

**Liabilities**

Accounts payable and accrued expenses	\$ 254,507	\$ 232,293
Due to affiliates (Notes 3 and 6)	70,530	158,368
Retirement plan liabilities (Note 5)	158,879	130,212
Notes payable (Note 8)	51,047	48,588
Bonds payable (Note 9)	105,000	135,000
<b>Total Liabilities</b>	<b>639,963</b>	<b>704,461</b>

**Net Assets**

Unrestricted	1,479,051	578,656
Temporarily restricted (Note 11)	5,660,475	4,768,915
Permanently restricted (Note 11)	8,343,044	8,343,044
<b>Total Net Assets</b>	<b>15,482,570</b>	<b>13,690,615</b>
<b>Total Liabilities And Net Assets</b>	<b>\$ 16,122,533</b>	<b>\$ 14,395,076</b>

# BOYS HOPE GIRLS HOPE

## STATEMENT OF ACTIVITIES

	For The Year Ended June 30, 2011				For The Year Ended June 30, 2010			
	Unrestricted	Temporarily	Permanently	Total	Unrestricted	Temporarily	Permanently	Total
		Restricted	Restricted			Restricted	Restricted	
<b>Public Support And Revenues</b>								
Contributions	\$ 620,135	\$ 544,022	\$ —	\$ 1,164,157	\$ 651,058	\$ 202,948	\$ —	\$ 854,006
Government grants	197,348	—	—	197,348	247,853	—	—	247,853
Support from local affiliates (Note 6)	335,620	—	—	335,620	329,545	—	—	329,545
Investment return designated for current operations (Note 4)	—	704,000	—	704,000	—	625,000	—	625,000
Investment return greater than amounts designated for current operations (Note 4)	1,205,880	1,011,188	—	2,217,068	437,688	382,209	—	819,897
Other income	6,985	—	—	6,985	6,525	—	—	6,525
Net assets released from restrictions (Note 11)	1,367,650	(1,367,650)	—	—	1,489,077	(1,489,077)	—	—
<b>Total Public Support And Revenues</b>	<b>3,733,618</b>	<b>891,560</b>	<b>—</b>	<b>4,625,178</b>	<b>3,161,746</b>	<b>(278,920)</b>	<b>—</b>	<b>2,882,826</b>
<b>Expenses</b>								
Program services	2,311,053	—	—	2,311,053	2,198,934	—	—	2,198,934
Supporting activities:								
Management and general	471,614	—	—	471,614	542,136	—	—	542,136
Fundraising	50,556	—	—	50,556	43,725	—	—	43,725
Total Supporting Activities	522,170	—	—	522,170	585,861	—	—	585,861
<b>Total Expenses</b>	<b>2,833,223</b>	<b>—</b>	<b>—</b>	<b>2,833,223</b>	<b>2,784,795</b>	<b>—</b>	<b>—</b>	<b>2,784,795</b>
<b>Increase (Decrease) In Net Assets Before Loss From Uncollectible Pledge</b>	<b>900,395</b>	<b>891,560</b>	<b>—</b>	<b>1,791,955</b>	<b>376,951</b>	<b>(278,920)</b>	<b>—</b>	<b>98,031</b>
<b>Loss From Uncollectible Pledge (Note 14)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(280,251)</b>	<b>—</b>	<b>(280,251)</b>
<b>Increase (Decrease) In Net Assets</b>	<b>900,395</b>	<b>891,560</b>	<b>—</b>	<b>1,791,955</b>	<b>376,951</b>	<b>(559,171)</b>	<b>—</b>	<b>(182,220)</b>
<b>Net Assets - Beginning Of Year</b>	<b>578,656</b>	<b>4,768,915</b>	<b>8,343,044</b>	<b>13,690,615</b>	<b>201,705</b>	<b>5,328,086</b>	<b>8,343,044</b>	<b>13,872,835</b>
<b>Net Assets - End Of Year</b>	<b>\$ 1,479,051</b>	<b>\$ 5,660,475</b>	<b>\$ 8,343,044</b>	<b>\$ 15,482,570</b>	<b>\$ 578,656</b>	<b>\$ 4,768,915</b>	<b>\$ 8,343,044</b>	<b>\$ 13,690,615</b>

## BOYS HOPE GIRLS HOPE

### STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended June 30, 2011

	Program Services	Supporting Activities			Total
	General Operations	Management And General	Fundraising	Total	
Salaries, payroll taxes and benefits	\$ 961,948	\$ 233,364	\$ 33,928	\$ 267,292	\$ 1,229,240
Program support and administration	448,086	10,073	367	10,440	458,526
Scholarship	242,861	—	—	—	242,861
Grant expense (Note 3)	34,000	—	—	—	34,000
Bad debt expense	—	—	8,969	8,969	8,969
Depreciation	—	83,846	—	83,846	83,846
Information technology	52,950	19,908	798	20,706	73,656
Insurance, licenses, dues and property taxes	19,506	11,112	—	11,112	30,618
Interest and bank fees	743	15,065	—	15,065	15,808
International assistance	282,830	—	—	—	282,830
Postage and stationery	2,394	3,751	1,161	4,912	7,306
Professional fees	136,235	26,829	—	26,829	163,064
Promotion	6,329	1,458	2,515	3,973	10,302
Repairs and maintenance	1,355	18,362	741	19,103	20,458
Staff recruiting and education	31,638	3,379	595	3,974	35,612
Supplies	1,064	12,232	—	12,232	13,296
Travel	55,787	1,781	1,482	3,263	59,050
Utilities	10,822	30,042	—	30,042	40,864
Volunteers' expenses	22,505	412	—	412	22,917
	<b>\$ 2,311,053</b>	<b>\$ 471,614</b>	<b>\$ 50,556</b>	<b>\$ 522,170</b>	<b>\$ 2,833,223</b>

## BOYS HOPE GIRLS HOPE

### STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended June 30, 2010

	Program Services	Supporting Activities			Total
	General Operations	Management And General	Fundraising	Total	
Salaries, payroll taxes and benefits	\$ 836,515	\$ 332,906	\$ 38,328	\$ 371,234	\$ 1,207,749
Program support and administration	389,050	4,697	595	5,292	394,342
Scholarship	185,800	—	—	—	185,800
Grant expense (Note 3)	95,970	—	—	—	95,970
Depreciation	71,357	23,867	—	23,867	95,224
Information technology	49,970	11,297	774	12,071	62,041
Insurance, licenses, dues and property taxes	3,879	31,363	—	31,363	35,242
Interest and bank fees	3,529	13,078	—	13,078	16,607
International assistance	318,478	—	—	—	318,478
Postage and stationery	668	4,495	546	5,041	5,709
Professional fees	129,619	29,669	—	29,669	159,288
Promotion	8,449	6,803	2,204	9,007	17,456
Repairs and maintenance	1,012	24,771	505	25,276	26,288
Staff recruiting and education	16,585	4,618	—	4,618	21,203
Supplies	2,195	8,089	—	8,089	10,284
Travel	59,593	17,482	773	18,255	77,848
Utilities	8,993	28,548	—	28,548	37,541
Volunteers' expenses	17,272	453	—	453	17,725
	<b>\$ 2,198,934</b>	<b>\$ 542,136</b>	<b>\$ 43,725</b>	<b>\$ 585,861</b>	<b>\$ 2,784,795</b>

**BOYS HOPE GIRLS HOPE**  
**STATEMENT OF CASH FLOWS**

	<b>For The Years</b>	
	<b>Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash Flows From Operating Activities</b>		
Increase (decrease) in net assets	\$ 1,791,955	\$ (182,220)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	83,846	95,224
Accretion of discount on note payable	2,459	327
Realized (gain) loss on sale of investments	(126,084)	282,059
Unrealized gain on investments	(2,538,667)	(1,574,561)
Changes in assets and liabilities:		
Decrease in pledges receivable	9,395	523,566
(Increase) decrease in due from affiliates	(22,840)	25,664
Decrease in other assets	23,129	109
Increase (decrease) in accounts payable and accrued expenses	22,214	(19,246)
Increase (decrease) in due to affiliates	(87,838)	22,157
<b>Net Cash Used In Operating Activities</b>	<b>(842,431)</b>	<b>(826,921)</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of investments	(1,336,314)	(159,681)
Proceeds from sale of investments	2,157,202	1,004,670
Receipts on capital leases receivable	2,171	1,974
Purchases of property and equipment	—	(19,421)
<b>Net Cash Provided By Investing Activities</b>	<b>823,059</b>	<b>827,542</b>
<b>Cash Flows From Financing Activities</b>		
Principal payments on capital lease obligation	—	(7,074)
Principal payments on bonds payable	(30,000)	(30,000)
<b>Net Cash Used In Financing Activities</b>	<b>(30,000)</b>	<b>(37,074)</b>
<b>Net Decrease In Cash And Cash Equivalents</b>	<b>(49,372)</b>	<b>(36,453)</b>
<b>Cash And Cash Equivalents - Beginning Of Year</b>	<b>196,838</b>	<b>233,291</b>
<b>Cash And Cash Equivalents - End Of Year</b>	<b>\$ 147,466</b>	<b>\$ 196,838</b>
<b>Supplemental Cash Flow Information</b>		
Interest paid	\$ 7,363	\$ 7,786



# **BOYS HOPE GIRLS HOPE**

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## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011 And 2010**

### **1. Summary Of Significant Accounting Policies**

#### **Basis Of Accounting**

The financial statements of Boys Hope Girls Hope (the Organization) have been prepared on the accrual basis of accounting.

#### **Basis Of Presentation**

Financial statement presentation follows the requirements of the Financial Accounting Standards Board for not-for-profit organizations by presenting assets and liabilities within similar groups and classifying them in a way that provides relevant information about the interrelationships, liquidity, and financial flexibility. As a result, the Organization is required to report information regarding its financial position and activities according to the following three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

#### **Estimates And Assumptions**

The Organization uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

#### **Cash And Cash Equivalents**

The Organization considers all highly-liquid, short-term investments to be cash equivalents.

The Organization invests its cash investments with financial institutions with strong credit ratings. At times, such investments may be in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits.

#### **Pledges Receivable**

Unconditional pledges receivable in future periods are recognized as revenues in the period the pledges are received. Conditional pledges, which depend upon specified future and uncertain events, are recognized as revenue when the conditions upon which they depend are substantially met. Pledges receivable are recorded after discounting to the present value of future cash flows. A discount rate of 3.5% and 6% has been utilized in June 30, 2011 and 2010, respectively. Pledges receivable are reported at the amount management expects to collect on balances outstanding at year end.

## **BOYS HOPE GIRLS HOPE**

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### Notes To Financial Statements (*Continued*)

An allowance for uncollectible pledges receivable is provided based upon the Organization's estimate of amounts which will ultimately not be collected. The estimate is based on historical collection experience coupled with a review of the current status of existing promises to give. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual pledges receivable. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable.

#### **Investments And Assets Restricted For Endowment**

The Organization invests in various investment securities. Marketable investments are carried at market value as quoted on major securities exchanges. Investments for which quoted market prices are not available are carried at estimated realizable values as determined by the fund managers and are reviewed by management. Gains and losses on sales of investments are determined on a specific cost identification basis. Unrealized gains and losses are determined based on year-end fair value fluctuations.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

#### **Property And Equipment**

Property and equipment are carried at cost, if purchased, or at fair value, if donated, less accumulated depreciation computed using the straight-line method. The assets are depreciated over the following periods:

Building and improvements	26 - 35 years
Computer equipment	5 years
Furniture and equipment	5 years

#### **Restricted And Unrestricted Public Support And Revenues**

The Organization reports gifts of cash and other assets as unrestricted, temporarily restricted or permanently restricted, depending on the existence and/or nature of any donor restrictions. When a donor 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 activities as net assets released from restrictions.

## **BOYS HOPE GIRLS HOPE**

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### Notes To Financial Statements (*Continued*)

The Organization has a three-year grant, which expires in September 2011, from the Corporation for National and Community Service to fund the Organization's Links Mentoring program. Revenue under this grant is recorded in government grants on the statement of activities and is classified as unrestricted.

#### **Description Of Program Services And Supporting Activities**

The following program services and supporting activities are included in the accompanying financial statements:

##### **Program**

Program services include establishing and supporting affiliates across the United States as well as Central and South America. The National Office provides a variety of services to affiliates: initial program start-up (establishing the board, zoning/legal issues, developing donor base, etc.); staff recruitment and training; transition service (oversight of program during periods of local management transition); centralized accounting, insurance, human resource management, donor management and information technology, and ongoing consultation regarding fundraising and programmatic issues.

The National Office provides direct services to graduates of the Organization through its college preparation, college support and alumni programs. This includes scholarships of up to \$3,000 per collegian per year.

##### **Management And General**

Includes the functions necessary to maintain an equitable employment program, ensure an adequate working environment, provide coordination and articulation of the Organization's program strategy, secure proper administrative functioning of the Board of Directors and manage the financial and budgetary responsibilities of the Organization.

##### **Fundraising**

Fundraising includes activity related to identifying and accessing the resources necessary to maintain operations and achieve programmatic goals.

##### **Expense Allocation**

Expenses are charged to program services and supporting activities on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

## **BOYS HOPE GIRLS HOPE**

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### Notes To Financial Statements (*Continued*)

#### **Tax Status**

The Organization constitutes a qualified not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from federal income taxes.

The federal tax returns for tax years ending June 30, 2007 and later remain subject to examination by taxing authorities.

#### **Subsequent Events**

Management has evaluated subsequent events through October 4, 2011, the date which the financial statements were available for issue.

#### **Reclassifications**

Certain 2010 balances have been reclassified, where appropriate, to conform with the financial statement presentation used in 2011.

## **2. Operations**

The National Office of the Organization partners with its affiliates in 15 U.S. cities, Brazil, Peru, Mexico and Guatemala to bring HOPE (Homes, Opportunities, Parenting, Education) to children-in-need.

As “clients” of the National Office, the Organization affiliates receive a variety of services: initial program start-up (establishing the board, resolving zoning/legal issues, developing donor base, etc.); staff recruitment and training; transition services (oversight of program during periods of local management transition); centralized accounting, insurance, human resource management, donor management and information technology; and ongoing consultation. With this support from the National Office, affiliate staff is able to focus on providing the highest possible quality of service to each scholar.

The National Office provides direct services to graduates of the Organization through its college preparation, college support and alumni programs. This includes scholarships of up to \$3,000 per collegian per year, matched by \$2,000 scholarships from the local affiliates.

National Office fundraising activities provide for the services described above while each affiliate generates operating support for the homes. Each affiliate is incorporated as a separate 501(c)(3) organization.

## BOYS HOPE GIRLS HOPE

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### Notes To Financial Statements (Continued)

#### 3. National Campaign And Pledges Receivable

During fiscal 2002, the Organization launched a National Campaign, considered temporarily restricted, in order to raise funds to support the continued growth and expansion of program services. During the years ended June 30, 2011 and 2010, no National Campaign contribution revenue was received or recorded. Prior to 2007, National Campaign contribution revenue was mainly in the form of multi-year pledges over five years. In accordance with accounting guidelines, the Organization has recorded discounts of \$1,690 and \$2,264 on these multi-year campaign pledges at June 30, 2011 and 2010, respectively. At June 30, 2011 and 2010, the Organization had National Campaign pledges receivable of \$8,969 and \$18,969, respectively.

As part of the National Campaign, the Organization has established a challenge grant in which the Organization will match the amounts raised by affiliates “dollar-for-dollar” based on actual cash receipts, up to specified limits. The challenge grant is limited to \$50,000 per year with a maximum of \$250,000 per affiliate.

The amount recorded for challenge grant expense in 2011 and 2010 was \$34,000 and \$95,970, respectively. As of June 30, 2011 and 2010, \$70,530 and \$158,368, respectively, were included in due to affiliates on the statement of financial position (Note 6).

As an additional component of the National Campaign for fiscal year ending June 30, 2010, the “Make Hope Happen” grant requires affiliates to apply to the Organization to receive grants for special projects. Once the special project is complete and receipts have been submitted, the affiliate is reimbursed. The grant is limited to \$25,000 per year per affiliate for a three year period. Total expenses for the “Make Hope Happen” grant in 2010 were \$21,970. There were no expenses for this grant in 2011. In 2011 and 2010, there was no balance in due to affiliates as a result of this grant on the statement of financial position.

Pledges receivable consist of the following:

	<u>2011</u>	<u>2010</u>
National Campaign	\$ 8,969	\$ 18,969
Operational fund	140,090	131,090
	<u>149,059</u>	<u>150,059</u>
Less: Discount on pledges receivable	1,690	2,264
Allowance for doubtful accounts	14,151	5,182
	<u>\$ 133,218</u>	<u>\$ 142,613</u>

## BOYS HOPE GIRLS HOPE

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### Notes To Financial Statements (Continued)

Pledges receivable are collectible as follows:

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 99,059	\$ 110,059
One to five years	50,000	40,000
	<u>149,059</u>	<u>150,059</u>
Less: Discount on pledges receivable	1,690	2,264
Allowance for doubtful accounts	14,151	5,182
	<u>\$ 133,218</u>	<u>\$ 142,613</u>

#### 4. Investments

Investments are recorded at fair value and consist of:

	<u>2011</u>	<u>2010</u>
Cash equivalents	\$ 61,506	\$ 25,282
Bond funds	2,686,753	2,504,591
Equity funds	9,485,341	7,999,175
Holding fund	1,300,000	—
Alternative hedge fund	894,709	2,055,398
	<u>14,428,309</u>	<u>12,584,446</u>
Less: Investments restricted for endowment	8,343,044	8,343,044
	<u>\$ 6,085,265</u>	<u>\$ 4,241,402</u>

The amounts reported as investment return designated for current operations are based on the spending rule outlined in the Organization's Investment Guidelines. The spending rule is a fixed percentage (currently 5%) of the average quarter end market value of the Investments and Investments Restricted for Endowment for the previous 12 quarters. If amounts designated for operations exceed the actual investment return, the appropriated amount will be lowered in order to retain the historical value of the endowment.

On June 30, 2011, \$1,300,000 was transferred out of the alternative hedge fund. The amount was held for 45 days to verify the value of the hedge fund. On August 15, 2011, the \$1,300,000 was deposited into cash equivalents of another investment account held by the Organization.

## BOYS HOPE GIRLS HOPE

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### Notes To Financial Statements (Continued)

Investment income (loss) consists of:

	<u>2011</u>	<u>2010</u>
Interest and dividend income (net)	\$ 256,317	\$ 152,395
Realized (losses) gains	126,084	(282,059)
Unrealized gains	2,538,667	1,574,561
	<u>\$ 2,921,068</u>	<u>\$ 1,444,897</u>

In 2011 and 2010, interest and dividend income is net of investment fees of \$45,147 and \$74,352, respectively.

### 5. Retirement Plan

The Organization has established a 401(k) plan covering eligible employees. The plan provides for a discretionary employer contribution of up to 3% of eligible compensation and a discretionary match of 100% of the first 3.5% of eligible employee contributions. Total contributions by the Organization amounted to \$24,188 and \$14,018 in 2011 and 2010, respectively.

The Organization also has a nonqualified 401(a) and 403(b) defined benefit pension plan (the Plan) covering former employees. Under the 401(a) and 403(b) plans, assets are funded and directed by the Organization. The provisions of the Plan allow for the offset of the assets of the Plan against the retirement benefit payments, as defined.

At June 30, 2011 and 2010, the pension plan assets represent cash surrender values of a life insurance policy plus the market values of the 401(a) and 403(b) plan assets, and the pension plan liabilities represent the actuarial present value of benefits related to prior employees' service. At June 30, 2006, all participants were fully vested.

**6. Affiliations And Related Parties**

As of June 30, 2011, 15 local affiliate locations are incorporated in the following locations:

St. Louis, Missouri  
Staten Island, New York  
Chicago, Illinois  
New Orleans, Louisiana  
Cincinnati, Ohio  
Detroit, Michigan  
Cleveland, Ohio  
Phoenix, Arizona  
Southern California  
Pittsburgh, Ohio  
Denver, Colorado  
Baton Rouge, Louisiana  
San Francisco, California  
Baltimore, Maryland  
Kansas City, Missouri

In addition to these domestic locations, there are four international locations:

Sao Paulo, Brazil  
Guatemala City, Guatemala  
Lima, Peru  
Monterey, Mexico

Affiliates are required to pay an assessment under a contractual agreement. During fiscal years 2011 and 2010, such assessments totaled \$335,620 and \$329,545, respectively. At June 30, 2011 and 2010, the Organization was due \$492,522 and \$469,682, respectively, from the affiliates, the majority of which related to such assessments.

The Organization periodically receives funds on behalf of affiliates. The Organization will invest those funds and remit the principal amount received with any related income earned to the affiliate upon request. At June 30, 2011 and 2010, the Organization owed \$70,530 and \$158,368, respectively, to its affiliates.

At June 30, 2011, the Southern California affiliate has an outstanding balance of approximately \$74,000 on a \$75,000 line of credit that has been co-signed by the Organization.

At June 30, 2011, the San Francisco affiliate has an outstanding balance of approximately \$75,000, on a \$75,000 line of credit that has been co-signed by the Organization.



## **BOYS HOPE GIRLS HOPE**

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### Notes To Financial Statements *(Continued)*

At June 30, 2011, the St. Louis affiliate has an outstanding balance of approximately \$65,000, on a \$75,000 line of credit that has been co-signed by the Organization.

## **7. Property And Equipment**

Property and equipment consist of:

	<u>2011</u>	<u>2010</u>
Building and improvements	\$ 1,121,111	\$ 1,121,111
Computer equipment	370,500	370,500
Furniture and equipment	193,018	193,018
	<u>1,684,629</u>	<u>1,684,629</u>
Less: Accumulated depreciation	<u>983,028</u>	<u>899,182</u>
	<u>\$ 701,601</u>	<u>\$ 785,447</u>

Depreciation charged to expense amounted to \$83,846 in 2011 and \$95,224 in 2010.

## **8. Notes Payable And Capital Lease Obligation**

During 1990, the Organization constructed a house in Phoenix, Arizona to be used by Boys Hope Girls Hope of Arizona, Inc. (Phoenix) to house youth enrolled in the program. The Organization purchased the land for the house from Brophy, a Jesuit High School in Phoenix, with a corresponding note payable to Brophy.

The note payable consists of the following:

	<u>2011</u>	<u>2010</u>
Note payable, maturity value of \$60,000, secured by real estate, due in 2014, with annual payments of \$2,400 through 2014, discounted 10%	<u>\$ 51,047</u>	<u>\$ 48,588</u>

## BOYS HOPE GIRLS HOPE

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### Notes To Financial Statements (Continued)

During 2007, the Organization obtained unsecured loans of \$24,520 and \$1,040 from a bank to acquire computer equipment and to finance a software maintenance agreement, respectively. The loans required fixed monthly payments of \$752 and \$32, respectively, including principal and interest at 6.5% for 36 months through January 2010 and March 2010, respectively. The loan to finance the software maintenance agreement was paid in full during the fiscal year ended June 30, 2009. The loan to finance the computer equipment was paid in full during the fiscal year ended June 20, 2010.

In addition, during 2007, the Organization financed \$47,270 of computer software acquisition and installation costs under a capital lease agreement which required an initial payment of \$2,876 and fixed monthly payments thereafter of \$1,438 for 34 months through November 2009. Interest was imputed at 6.5%. The computer software lease obligation was paid in full during the fiscal year ended June 30, 2010.

Interest expense on the notes payable and lease obligation during 2011 and 2010 totaled approximately \$3,900 and \$3,500, respectively.

## 9. Industrial Development Authority Bonds Payable

The bonds payable consist of the following:

	<u>2011</u>	<u>2010</u>
Callable Industrial Development Authority bonds, secured by deed of trust, principal payments of \$15,000 payable semiannually through 2015, with interest payable monthly at a variable rate (2.73% at June 30, 2011 and 2010)	\$ 105,000	\$ 135,000

During 1995, the Organization sold, at 100%, \$620,000 of callable, variable interest Industrial Development Authority bonds to purchase a new corporate facility in Bridgeton, Missouri. Principal payments are due in the amount of \$15,000 on each July 1 and January 1 until paid in full. The bonds are redeemable by the holder with 60-days advance written notice on January 1, 2010. The bonds can also be prepaid in whole or in part with five-days written notice to the holder without premium or penalty.

Interest expense on the bonds during 2011 and 2010 approximated \$3,500 and \$4,300, respectively.

## BOYS HOPE GIRLS HOPE

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### Notes To Financial Statements (Continued)

As of June 30, 2011, long-term debt to maturity for all financing obligations is as follows, assuming the holder of the bonds does not exercise its early redemption rights:

<u>Year</u>	<u>Notes Payable</u>	<u>Bonds Payable</u>	<u>Total</u>
2012	\$ —	\$ 30,000	\$ 30,000
2013	—	30,000	30,000
2014	51,047	30,000	81,047
2015	—	15,000	15,000
	<u>\$ 51,047</u>	<u>\$ 105,000</u>	<u>\$ 156,047</u>

### 10. Line Of Credit

In December 2008, the Organization established a revolving line-of-credit agreement with UMB Bank. The line is unsecured with a maximum draw amount of \$250,000. There is no outstanding balance at June 30, 2011 and 2010. Interest is payable monthly at the prime rate not to be less than 3.5%. Under the terms of this agreement, any outstanding balance is payable on demand.

### 11. Net Assets

Temporarily and permanently restricted net assets are comprised of the following:

	<u>2011</u>		<u>2010</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
National Campaign	\$ 2,836,469	\$ —	\$ 3,386,660	\$ —
International	276,525	200,000	235,408	200,000
Jean T. McKenna				
National Scholarship	395,986	1,059,638	153,142	1,059,638
Other funded projects	758,097	—	611,496	—
Boys Hope Girls Hope				
Endowment Fund	1,393,398	7,083,406	382,209	7,083,406
	<u>\$ 5,660,475</u>	<u>\$ 8,343,044</u>	<u>\$ 4,768,915</u>	<u>\$ 8,343,044</u>

## BOYS HOPE GIRLS HOPE

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### Notes To Financial Statements (Continued)

Net assets were released from donor restrictions as follows:

	<u>2011</u>	<u>2010</u>
National Campaign	\$ 550,191	\$ 718,201
International	252,271	35,934
Jean T. McKenna National Scholarship	116,750	85,500
Other funded projects	3,399	176,511
Boys Hope Girls Hope Endowment Fund		
Appropriation	445,039	472,931
	<u>\$ 1,367,650</u>	<u>\$ 1,489,077</u>

The above net asset components are described as follows:

**National Campaign** - This component was established in 2002 to record contributions generated by the National Campaign (Note 3) and related investment income. These funds will be utilized for the challenge grant match, scholarships, international support and affiliate services.

**International** - The International component is used to record revenue generated to help support the ongoing operations of various international programs.

**Jean T. McKenna National Scholarship** - The scholarship component is used to fund a portion of a youth's college education costs each year through scholarships. Boys and girls qualifying for awards must show financial need and academic achievement.

**Other Funded Projects** - This component is comprised of donor gifts restricted for specific projects.

**Boys Hope Girls Hope Endowment Fund** - This component was established to create a permanently restricted fund to generate income to offset general operating expenses and the costs of expansion and local program support.

## BOYS HOPE GIRLS HOPE

### Notes To Financial Statements (Continued)

## 12. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following are the major categories of assets and liabilities measured at fair value on a recurring basis during the year ended June 30, 2011, using quoted prices in active markets (Level 1); significant observable inputs for similar assets (Level 2); and significant unobservable inputs (Level 3):

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Bond funds				
Intermediate term bond	\$ 1,015,534	\$ —	\$ —	\$ 1,015,534
World bond	1,671,219	—	—	1,671,219
Equity funds				
Diversified emerging markets	1,310,877	—	—	1,310,877
Foreign large blend	1,186,253	—	—	1,186,253
Foreign large value	1,764,013	—	—	1,764,013
Large blend	864,852	—	—	864,852
Large growth	3,205,178	—	—	3,205,178
Large value	144,704	—	—	144,704
Natural resources	1,009,464	—	—	1,009,464
Holding fund	1,300,000	—	—	1,300,000
Alternative hedge fund	—	—	894,709	894,709
Total Assets	\$ 13,472,094	\$ —	\$ 894,709	\$ 14,366,803

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Bond funds				
Intermediate term bond	\$ 1,236,961	\$ —	\$ —	\$ 1,236,961
World bond	1,267,630	—	—	1,267,630
Equity funds				
Diversified emerging markets	933,224	—	—	933,224
Foreign large blend	627,683	—	—	627,683
Foreign large value	2,090,323	—	—	2,090,323
Large blend	893,305	—	—	893,305
Large growth	2,564,363	—	—	2,564,363
Large value	276,060	—	—	276,060
Natural resources	614,217	—	—	614,217
Alternative hedge fund	—	—	2,055,398	2,055,398
Total Assets	\$ 10,503,766	\$ —	\$ 2,055,398	\$ 12,559,164

## BOYS HOPE GIRLS HOPE

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### Notes To Financial Statements (Continued)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended June 30, 2011 and 2010:

	<b>Alternative Hedge Fund Investment</b>
Balance at July 1, 2009	\$ 1,876,194
Increase in value	<u>179,204</u>
Balance at June 30, 2010	2,055,398
Sale of investment	(1,300,000)
Increase in value	<u>139,311</u>
Balance at June 30, 2011	<u>\$ 894,709</u>

Change in the value of the alternative hedge fund investment is presented within the total investment gain as shown separately on the Organization's statement of activities for the year ended June 30, 2011. The alternative hedge fund investment is valued at net asset value determined by the fund manager generally based upon observable prices for underlying assets which are not quoted in active markets.

The investment in the alternative hedge fund is subject to restrictions on withdrawal which have an indeterminable factor on the asset valuation.

### 13. Endowment Funds

The Organization's endowment consists of three individual donor-restricted endowment funds established for a variety of purposes, including general national campaign/affiliate support, international assistance, and scholarships. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Organization have adopted a policy 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. The Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets.

## BOYS HOPE GIRLS HOPE

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### Notes To Financial Statements (Continued)

#### Endowment Net Asset Composition

As of June 30, 2011 and 2010, the Organization had \$8,343,044 in three permanently restricted endowment funds designated for international assistance, scholarship and general affiliate assistance. Additionally, the Organization had \$1,393,397 and \$382,209 in temporarily endowment funds at June 30, 2011 and 2010, respectively, for endowment earnings unappropriated by the Board of Directors at year end.

#### Changes In Endowment Assets For The Fiscal Years Ended June 30, 2011 And 2010:

	Temporarily Restricted	Permanently Restricted	Total
Endowment assets at June 30, 2009	\$ —	\$ 8,343,044	\$ 8,343,044
Investment income	1,007,209	—	1,007,209
Appropriation of endowment assets for expenditure	(625,000)	—	(625,000)
Endowment assets at June 30, 2010	382,209	8,343,044	8,725,253
Investment income	1,715,189	—	1,715,189
Appropriation of endowment assets for expenditure	(704,000)	—	(704,000)
Endowment assets at June 30, 2011	\$ 1,393,398	\$ 8,343,044	\$ 9,736,442

#### Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature related to market fluctuations are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2011.

**Return Objectives And Risk Parameters**

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 donor-specified periods. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce an average annual rate of return of 8.5% over the long term, while assuming a moderate level of investment risk. The Organization expects its actual rate of return in any given year to vary from this rate.

**Strategies Employed For Achieving Objectives**

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.

**Spending Policy And How The Investment Objectives Relate To Spending Policy**

The Organization has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned. 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 an average of 3.5% annually. 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.

**14. Loss From Uncollectible Pledge**

The Organization received a major pledge in 2002 for \$475,000. Subsequent to June 30, 2010, the donor passed away and the Organization determined it was necessary to recognize a loss of the entire amount of the unpaid pledge net of its present value discount. A loss of \$280,251 was reported outside of operations in 2010.