

BOYS & GIRLS HARBOR INC
FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2007 and 2006

BOYS & GIRLS HARBOR, INC.
FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007 and 2006
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Independent Auditors' Report

To the Board of Directors
Boys & Girls Harbor, Inc
Houston, Texas

We have audited the accompanying statement of financial position of The Boys & Girls Harbor, Inc. (the "Organization") as of June 30, 2007, and the related statements of activities, functional expenses and cash flows for the year 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 audit. The 2006 financial statements were audited by another independent auditor, and in their report dated March 6, 2007, they expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Boy & Girls Harbor, Inc. as of June 30, 2007 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.

Null-Lairson, P.C.

Houston, Texas
December 31, 2007

BOYS & GIRLS HARBOR, INC
STATEMENT OF FINANCIAL POSITION
JUNE 20, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 865,955	\$ 472,678
Marketable securities, at market value	635,887	883,359
Accounts receivable	98,816	115,792
Pledges receivable	15,000	341,847
Prepaid expenses and other current assets	69,979	60,229
	<u>1,685,636</u>	<u>1,873,905</u>
TOTAL CURRENT ASSETS		
PROPERTY AND EQUIPMENT, net	<u>2,927,839</u>	<u>2,081,334</u>
LONG TERM PLEDGES RECEIVABLE, net	<u>310,968</u>	<u>350,515</u>
TOTAL ASSETS	<u>\$ 4,924,444</u>	<u>\$ 4,305,754</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	<u>87,424</u>	<u>65,966</u>
TOTAL CURRENT LIABILITIES	<u>87,424</u>	<u>65,966</u>
NET ASSETS		
Unrestricted	4,201,160	3,491,041
Temporarily restricted	<u>635,860</u>	<u>748,747</u>
TOTAL NET ASSETS	<u>4,837,020</u>	<u>4,239,788</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,924,444</u>	<u>\$ 4,305,754</u>

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

BOYS & GIRLS HARBOR, INC
STATEMENT OF ACTIVITIES
FOR FISCAL YEAR ENDED JUNE 30,2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>All Funds</u>
PUBLIC SUPPORT AND REVENUE			
PUBLIC SUPPORT			
Gifts and Contributions	\$ 997,893	\$ 881,126	\$ 1,879,019
In-kind donated materials	220,571	-	220,571
Special fund-raising activities, net of cost of direct benefits to donors	399,899	-	399,899
TOTAL PUBLIC SUPPORT	<u>1,618,363</u>	<u>881,126</u>	<u>2,499,489</u>
REVENUE			
Tuition reimbursement	413,215	\$ -	413,215
School lunch program	44,868	-	44,868
Dividends	15,499	-	15,499
Interest	24,018	-	24,018
Agriculture sales	9,062	-	9,062
Net gain on marketable securities	102,830	-	102,830
Gain on sale of property	-	-	-
Net assets released from restrictions:			
Satisfaction of program restrictions	994,014	(994,014)	-
Other Income	(10,973)	-	(10,973)
TOTAL REVENUE	<u>1,592,534</u>	<u>(994,014)</u>	<u>598,520</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>3,210,897</u>	<u>(112,888)</u>	<u>3,098,009</u>
EXPENSES			
Program Expenses	1,866,238		1,866,238
SUPPORT SERVICES EXPENSES			
Management, general and administrative	312,029	-	312,029
Fund-raising	276,306	-	276,306
TOTAL SUPPORT SERVICES EXPENSES	<u>588,335</u>	<u>-</u>	<u>588,335</u>
TOTAL EXPENSES	<u>2,454,572</u>	<u>-</u>	<u>2,454,572</u>
INCREASE IN NET ASSETS	<u>756,324</u>	<u>(112,888)</u>	<u>643,436</u>
NET ASSETS AT THE BEGINNING OF YEAR	<u>3,491,041</u>	<u>748,747</u>	<u>4,239,788</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,247,365</u>	<u>\$ 635,859</u>	<u>\$ 4,883,224</u>

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

BOYS & GIRLS HARBOR, INC
STATEMENT OF ACTIVITIES
FOR FISCAL YEAR ENDED JUNE 30,2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>All Funds</u>
PUBLIC SUPPORT AND REVENUE			
PUBLIC SUPPORT			
Gifts and Contributions	\$ 1,032,796	\$ 612,913	\$ 1,645,709
In-kind donated materials	234,868	-	234,868
Special fund-raising activities, net of cost of direct benefits to donors	429,741	-	429,741
TOTAL PUBLIC SUPPORT	<u>1,697,405</u>	<u>612,913</u>	<u>2,310,318</u>
REVENUE			
Tuition reimbursement	622,531	-	622,531
School lunch program	41,472	-	41,472
Dividends	14,163	-	14,163
Interest	17,950	-	17,950
Agriculture sales	18,747	-	18,747
Net gain on marketable securities	23,531	-	23,531
Gain on sale of property	10,313	-	10,313
Net assets released from restrictions: Satisfaction of program restrictions	389,777	(389,777)	-
TOTAL REVENUE	<u>1,138,484</u>	<u>(389,777)</u>	<u>748,707</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>2,835,889</u>	<u>223,136</u>	<u>3,059,025</u>
EXPENSES			
Program Expenses	1,847,790	4,774	1,852,564
SUPPORT SERVICES EXPENSES			
Management, general and administrative	285,788	744	286,532
Fund-raising	248,479	682	249,161
TOTAL SUPPORT SERVICES EXPENSES	<u>534,267</u>	<u>1,426</u>	<u>535,693</u>
TOTAL EXPENSES	<u>2,382,057</u>	<u>6,200</u>	<u>2,388,257</u>
INCREASE IN NET ASSETS	<u>453,832</u>	<u>216,936</u>	<u>670,768</u>
NET ASSETS AT THE BEGINNING OF YEAR	<u>3,037,209</u>	<u>531,811</u>	<u>3,569,020</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,491,041</u>	<u>\$ 748,747</u>	<u>\$ 4,239,788</u>

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

BOYS & GIRLS HARBOR, INC
STATEMENT OF FUNCTIONAL EXPENSES
FOR FISCAL YEAR ENDED JUNE 30, 2007

	<u>Program</u>	<u>Management, General, and Administrative</u>	<u>Fund-raising</u>
SALARIES AND RELATED EXPENSES			
Salaries	\$ 680,673	\$ 164,133	\$ 153,856
Employee health benefits	172,988	38,983	31,674
Payroll taxes	<u>56,088</u>	<u>12,640</u>	<u>10,270</u>
TOTAL SALARIES AND RELATED EXPENSES	<u>909,749</u>	<u>215,756</u>	<u>195,800</u>
OTHER EXPENSES			
Accreditation expense	-	-	-
Bad debt expense/loss	(424)	(66)	(61)
Capital campaign supplies	-	-	3,180
Conferences and training	4,408	37	-
Farm	17,217	-	-
Food	190,646	-	-
Miscellaneous	5,443	427	2,133
Other insurance	36,684	14,487	-
Postage and shipping	1,496	356	5,271
Printing, publication, and advertising	17,260	4,771	3,496
Professional fees and contract service payments	68,617	14,119	45,644
Rent	-	36,708	-
Supplies	109,331	18,010	-
Telephone	16,969	1,768	16,616
Transportation	117,687	5,658	4,228
Utilities, building insurance and repairs	<u>186,253</u>	<u>-</u>	<u>-</u>
TOTAL OTHER EXPENSES	<u>771,588</u>	<u>96,273</u>	<u>80,506</u>
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	<u>1,681,337</u>	<u>312,029</u>	<u>276,306</u>
DEPRECIATION OF BUILDINGS AND EQUIPMENT	<u>184,900</u>	<u>-</u>	<u>-</u>
TOTAL FUNCTIONAL EXPENSES FOR THE FISCAL YEAR ENDING JUNE 30, 2007	<u>\$ 1,866,238</u>	<u>\$ 312,029</u>	<u>\$ 276,306</u>

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

BOYS & GIRLS HARBOR, INC
STATEMENT OF FUNCTIONAL EXPENSES
FOR FISCAL YEAR ENDED JUNE 30, 2006

	<u>Program</u>	<u>Management, General, and Administrative</u>	<u>Fund-raising</u>
SALARIES AND RELATED EXPENSES			
Salaries	\$ 667,827	\$ 146,876	\$ 128,132
Employee health benefits	171,069	38,551	31,322
Payroll taxes, etc.	49,915	11,249	9,140
TOTAL SALARIES AND RELATED EXPENSES	<u>888,811</u>	<u>196,676</u>	<u>168,594</u>
OTHER EXPENSES			
Accreditation expense	6,525	-	-
Bad debt expense/loss	27,709	4,318	3,958
Capital campaign supplies	-	-	20,967
Conferences and training	5,300	-	-
Farm	17,117	-	-
Food	186,320	-	-
Miscellaneous	32,709	1,226	6,130
Other insurance	33,950	10,040	-
Postage and shipping	1,766	420	6,223
Printing, publication, and advertising	14,030	3,577	2,786
Professional fees and contract service payments	54,719	10,198	23,456
Rent	-	36,103	-
Supplies	107,861	18,413	-
Telephone	15,564	1,621	15,239
Transportation	141,093	3,822	1,808
Utilities, building insurance and repairs	165,028	118	-
TOTAL OTHER EXPENSES	<u>809,691</u>	<u>89,856</u>	<u>80,567</u>
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	<u>1,698,502</u>	<u>286,532</u>	<u>249,161</u>
DEPRICIATION OF BUILDINGS AND EQUIPMENT	<u>154,062</u>	<u>-</u>	<u>-</u>
TOTAL FUNCTIONAL EXPENSES FOR THE FISCAL YEAR ENDING JUNE 30, 2006	<u>\$ 1,852,564</u>	<u>\$ 286,532</u>	<u>\$ 249,161</u>

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

BOYS & GIRLS HARBOR, INC
STATEMENT OF CASH FLOWS
FOR FISCAL YEAR ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 643,436	\$ 670,768
ADJUSTMENTS TO RECONCILE INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Depreciation	184,900	154,062
Bad debt expense	(550)	35,985
In-kind income from donated property	-	(9,600)
Gain on sale of property	-	(10,313)
Unrealized gain on marketable securities	(56,840)	(10,326)
Loss in disposal of equipment	945	
(Increase) decrease in operating assets:		
Receivables	383,370	(357,353)
Prepaid expenses and other current assets	(9,750)	12,332
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	21,458	14,324
TOTAL ADJUSTMENTS	<u>523,533</u>	<u>(170,889)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,166,969</u>	<u>499,879</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of Marketable Securities	796,684	378,179
Purchases of Marketable Securities	(538,024)	(304,807)
Purchases of Property and Equipment	(1,032,352)	(514,630)
NET CASH USED BY INVESTING ACTIVITIES	(773,692)	(441,258)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	393,277	58,621
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>472,678</u>	<u>414,057</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 865,955</u>	<u>\$ 472,678</u>

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

BOYS AND GIRLS HARBOR, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Boys & Girls Harbor, Inc. (the "Organization") was chartered in 1948 as a Texas nonprofit corporation. The Organization operates a home in La Porte, Texas, for dependent, homeless, abandoned and underprivileged children, and promotes the general welfare of such children by teaching the principles of good citizenship. The primary source of funding comes from contributions from the general public and program service fees from governmental agencies.

Summary of Significant Accounting Policies

A. Basis of Accounting

The financial statements have been prepared in accordance with the American Institute of Certified Public Accountants' Audit Guide, *Audits of Not-for-Profit Organizations*, and in accordance with accounting principles generally accepted in the United States of America. Accordingly, these financial statements are prepared on the accrual basis of accounting and present the financial position, results of operations, and cash flows of the Organization.

B. Financial Statement Preparation

The Organization presents its financial statements under Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of fixed assets as follows:

- **Unrestricted Net Assets** – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by the Board of Directors.
- **Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that will be met by actions of the Organization pursuant to those stipulations or that expire by the passage of time.
- **Permanently Restricted Net Assets** – Net assets subject to donor-imposed stipulations that they may be permanently maintained by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the investment return on these assets.

Revenues are reported as increases in unrestricted net assets unless they are limited by donor-imposed stipulations. Expenses are generally reported as decreases in unrestricted net assets. Satisfaction of donor-imposed stipulations that simultaneously increase unrestricted net assets and decrease temporarily restricted net assets are reported as reclassification expense in the statement of activities.

C. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash held in bank checking or money market accounts, and money funds with original maturities of three (3) months or less.

D. Marketable Securities

The basis of investments is fair market value determined at the statement of financial position date. Realized and unrealized gains or losses for the current year are calculated using the basis of investment from the prior year or historical cost, if the investment was purchased within the current year, and are recognized currently in the statement of activities.

BOYS AND GIRLS HARBOR, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables from grants, pledges, and etc. 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 the applicable accounts receivable. Allowances for unrestricted contributions are recorded to unrestricted net assets as bad debt expense, while allowances for restricted contributions are recorded to temporarily restricted net assets as bad debt loss. The allowance for doubtful accounts at June 30, 2007 and 2006 was \$230,840 and \$23,800, respectively.

F. Property and Equipment

The Organization follows the practice of recording capital expenditures for property and equipment at cost; donated assets are capitalized at their fair market value on the date received. Depreciation is provided on a straight-line basis over estimated useful lives, ranging from three (3) to thirty (30) years of the respective assets. The Organization's policy is to capitalize all assets with an acquisition and/or donation cost greater or equal to \$500.

G. Donated Services and Materials

A number of volunteers have donated their time and a number of organizations and individuals have donated materials to the Organization. The value of the services has not been included in the accompanying statements due to the lack of an objective basis for measurement. Donated materials, when received, are reflected as contributions in the accompanying statement at their estimated fair market values at the date of receipt.

H. Contributions

Contributions are recorded when pledged and are considered available for unrestricted use unless specifically restricted by the donor. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations limiting their use. 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. In-kind donations included in revenue at June 30, 2007 and 2006 amounted to \$220,571 and \$234,868 respectively for donated food, supplies, and rent.

I. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization's Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Allocation of Expenses

For purposes of the statement of functional expenses, expenses are allocated to various categories based upon management estimates.

BOYS AND GIRLS HARBOR, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Income Taxes

No provision for income taxes has been made in the financial statements because, as a nonprofit organization, the Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

L. Advertising Costs

Advertising Costs relate to printing and publications for the organization's various fundraising activities held annually. These costs are expensed as incurred. Advertising costs totaled to \$25,526 and \$21,522, respectively, for the years ended June 30, 2007 and 2006.

M. Special Fundraising Activities

Public support from special fundraising activities is recorded net of direct costs and costs of direct benefits to donors. For the years ended June 30, 2007 and 2006, gross support from these special fundraising activities was \$ 576,187 and \$,673,488, respectively.

NOTE 2 – MARKETABLE SECURITIES

Marketable securities are comprised of investments in common stock, bonds, and governmental securities

Marketable securities at June 30, 2007:

	Original Cost	Market Value	Basis	Unrealized Appreciation (Depreciation)
Common Stocks	285,340	390,795	331,257	59,538
Bonds	269,673	224,557	227,148	(2,591)
Governmental Securities	29,428	30,571	30,678	(107)
TOTALS	<u>584,441</u>	<u>645,923</u>	<u>589,083</u>	<u>56,840</u>

Marketable Securities at June 30, 2006:

	Original Cost	Market Value	Basis	Unrealized Appreciation (Depreciation)
Common Stocks	351,026	483,448	455,469	27,979
Bonds	375,324	369,637	386,124	(16,487)
Governmental Securities	29,055	30,274	31,440	(1,166)
TOTALS	<u>755,405</u>	<u>883,359</u>	<u>873,033</u>	<u>10,326</u>

The realized gain recognized for the fiscal years ended June 30, 2007 and 2006 was \$46,936 and \$13,205 respectively. Fees paid to investment advisors for the fiscal years ended June 30, 2007 and 2006 totaled \$9,075 and \$13,205, respectively.

BOYS AND GIRLS HARBOR, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – PLEDGES RECEIVABLE, NET

Pledges receivable are as follows at June 30:

	<u>2007</u>	<u>2006</u>
Receivable in less than one year	\$ 15,000	362,397
Receivable in one to five years	<u>541,809</u>	<u>433,609</u>
Total pledges receivable	556,809	796,006
Less: unamortized discount	-	(83,094)
Less: allowance for uncollectible pledges	<u>(230,840)</u>	<u>(20,550)</u>
PLEDGES RECEIVABLE, NET	<u><u>\$ 325,968</u></u>	<u><u>692,362</u></u>

The pledges receivable have been recognized as a corresponding increase to temporarily restricted net assets. Pledges due in more than one (1) year are reflected at the net present value of estimated cash flows using a discount rate of five percent (5%).

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2007</u>	<u>2006</u>
Building and leasehold improvements	3,799,367	2,807,008
Furniture and equipment	785,515	724,103
Vehicles	394,014	434,894
Livestock	<u>21,111</u>	<u>13,505</u>
Total depreciable assets	5,000,006	3,979,510
Less: accumulated depreciation	<u>(2,542,190)</u>	<u>(2,453,329)</u>
	2,457,817	1,526,181
Land	320,682	320,682
Construction in progress	149,341	234,474
TOTALS	<u><u>\$ 2,927,839</u></u>	<u><u>\$ 2,081,337</u></u>

Depreciation expense for the years ended June 30, 2007 and 2006 totaled 184,900 and \$154,062, respectively.

NOTE 5 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expense satisfying the restricted purposes or by occurrences of other events specified by donors. For the fiscal years ended June 30, 2007 and 2006, \$994,014 and \$389,777 was released from donor restriction through the satisfaction of program restrictions.

BOYS AND GIRLS HARBOR, INC.*NOTES TO THE FINANCIAL STATEMENTS**JUNE 30, 2007 AND 2006***NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS**

The temporarily restricted net assets at June 30, 2007 are being held for the following purposes:

Capital Projects	<u>\$ 635,860</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u><u>\$ 635,860</u></u>

NOTE 7 – COMMITMENTS

The Organization pays rent for office space based on escalated rental rates of \$3,073 per month through September 30, 2007, and \$3,296 per month through September 30, 2008. The Organization also rents office equipment and passenger vans under non-cancelable operating leases at various times through June 2010.

The total rent expense for the fiscal years June 30, 2007 and 2006 are \$90,440 and \$79,936. The minimum rental payments due under all operating leases are

<u>For the Fiscal Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 80,333
2009	43,174
2010	14,110
TOTAL	<u><u>\$ 137,617</u></u>

NOTE 8 – CONCENTRATION OF CREDIT RISK

Boys & Girls Harbor, Inc. received approximately sixty-two per cent (62%) and seventy-four (74%), respectively, of their public support and revenue from corporations, partnerships individuals, trusts, and foundations located within Harris County and the surrounding area and received approximately twenty-two per cent (22%) and twenty-six per cent (26%), respectively, of their public support and revenue from governmental agencies of the State of Texas for the fiscal years ended June 30, 2007 and 2006.

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of temporary cash investments and accounts receivable. The Organization places its temporary cash investments with financial institutions and a brokerage insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The Organization monitors the stability of these institutions to insure that the risk of loss of any uninsured amounts would be noted on a timely basis. The Organization had an uninsured cash balance of \$39,555 and \$387,654, respectively, at June 30, 2007 and 2006.

BOYS AND GIRLS HARBOR, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 9 – EMPLOYMENT BENEFIT PLAN

The Organization has a deferred compensation plan under Section 403(b) of the Internal Revenue Code. Under the plan, all employees who meet age and length of services requirements may elect to make contributions pursuant to a salary reduction agreement. Matching contributions by the Organization are discretionary. For the fiscal years ended June 30, 2007 and 2006, expenses of the plan paid by the organization were \$0 and \$1,835, respectively. The Organization made contributions to the plan for the fiscal years ended June 30, 2007 and 2006 of \$ 12,000 and \$12,000, respectively.

NOTE 10- SUBSEQUENT EVENTS

An agreement to form a partnership dated as of October 10, 2007, was entered into by and among Boys and Girls Harbor, Inc., Texas non-profit corporation (“Harbor”), Majestic Realty Co., a California corporation (“Majestic”) and certain of Majestic’s affiliates (collectively, “Majestic Group”). The Harbor, Majestic and Majestic Group desire to enter into a binding agreement for the purpose of constructing and rental of commercial warehouse.