

BOYS AND GIRLS REPUBLIC, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2013

BOYS AND GIRLS REPUBLIC, INC.

TABLE OF CONTENTS

Independent Auditor's Report

Exhibit

A - Balance Sheet

B - Statement of Activities

C - Statement of Functional Expenses

D - Statement of Cash Flows

Notes to Financial Statements



Independent Auditor's Report

**Board of Directors
Boys and Girls Republic, Inc.**

Report on Financial Statements

We have audited the accompanying financial statements of Boys and Girls Republic, Inc., which comprise the balance sheet as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys and Girls Republic, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Boys and Girls Republic, Inc. June 30, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 19, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

December 18, 2013

BOYS AND GIRLS REPUBLIC, INC.

BALANCE SHEET

JUNE 30, 2013

(With Summarized Financial Information
for the Year Ended June 30, 2012)

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| Cash | \$ 391,983 | \$ 336,885 |
| Investments (Note 4) | 1,882,612 | 937,358 |
| Due from contracting agencies | 27,365 | 41,603 |
| Due from Henry Street Settlement | 28,816 | |
| Leasehold improvements (net of accumulated amortization of \$515,522 in 2013 and \$477,363 in 2012) | <u>313,969</u> | <u>242,215</u> |
| Total assets | <u>\$ 2,644,745</u> | <u>\$ 1,558,061</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 2,300 | \$ 9,801 |
| Refundable advances | 19,958 | 5,298 |
| Due to Henry Street Settlement | <u></u> | <u>35,271</u> |
| Total liabilities | <u>22,258</u> | <u>50,370</u> |
| Net assets (Exhibit B) | | |
| Unrestricted | 313,969 | 242,215 |
| Temporarily restricted (Note 7) | 496,802 | 471,461 |
| Permanently restricted (Note 7) | <u>1,811,716</u> | <u>794,015</u> |
| Total net assets | <u>2,622,487</u> | <u>1,507,691</u> |
| Total liabilities and net assets | <u>\$ 2,644,745</u> | <u>\$ 1,558,061</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

(With Summarized Financial Information
for the Year Ended June 30, 2012)

| | Unrestricted | | | Temporarily Restricted | Permanently Restricted | Total | |
|--|-------------------|---------------|------------|---------------------------|---------------------------|--------------|--------------|
| | Operating Fund | Plant Fund | Total | | | 2013 | 2012 |
| Revenues, gains and other support | | | | | | | |
| Contributions | \$ 3,313 | | \$ 3,313 | \$ 168,800 | | \$ 172,113 | \$ 213,638 |
| Contributions - BGR Campaign | | | | | \$ 1,017,701 | 1,017,701 | |
| Grants and fees from contracting agencies (Note 5) | 377,150 | | 377,150 | | | 377,150 | 317,850 |
| Grant from Henry Street Settlement (Note 1) | 200,346 | | 200,346 | | | 200,346 | 138,901 |
| Program service fees | 395 | | 395 | | | 395 | 450 |
| Realized gains on investments | | | | 60,494 | | 60,494 | 8,189 |
| Unrealized gains (losses) on investments | | | | 12,608 | | 12,608 | (39,382) |
| Interest and dividends | 281 | | 281 | 16,356 | | 16,637 | 11,514 |
| Rental income | 7,120 | | 7,120 | | | 7,120 | 7,780 |
| Other income | 6,245 | | 6,245 | | | 6,245 | 39,854 |
| Insurance recovery (Note 10) | | \$ 82,724 | 82,724 | | | 82,724 | |
| Net assets released from restrictions (Note 7) | | | | | | | |
| Satisfaction of program restrictions | 183,800 | | 183,800 | (183,800) | | | |
| Satisfaction of income distribution requirements | 21,928 | | 21,928 | (21,928) | | | |
| Satisfaction of capital acquisition requirements | | 27,189 | 27,189 | (27,189) | | | |
| Total revenues, gains and other support | 800,578 | 109,913 | 910,491 | 25,341 | 1,017,701 | 1,953,533 | 698,794 |
| Expenses (Exhibit C) | | | | | | | |
| Program services - youth | 686,029 | 38,159 | 724,188 | | | 724,188 | 716,137 |
| Management and general | 114,549 | | 114,549 | | | 114,549 | 54,398 |
| Total expenses | 800,578 | 38,159 | 838,737 | | | 838,737 | 770,535 |
| Change in net assets (Exhibit D) | - | 71,754 | 71,754 | 25,341 | 1,017,701 | 1,114,796 | (71,741) |
| Net assets - beginning of year | | 242,215 | 242,215 | 471,461 | 794,015 | 1,507,691 | 1,579,432 |
| Net assets - end of year (Exhibit A) | \$ - | \$ 313,969 | \$ 313,969 | \$ 496,802 | \$ 1,811,716 | \$ 2,622,487 | \$ 1,507,691 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BOYS AND GIRLS REPUBLIC, INC.

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

(With Summarized Financial Information
for the Year Ended June 30, 2012)

| | Program Services - Youth | Management and General | Total | |
|---|--------------------------------|---------------------------|------------|------------|
| | | | 2013 | 2012 |
| Salaries | \$ 190,506 | \$ 53,697 | \$ 244,203 | \$ 192,459 |
| Payroll taxes and employee benefits | 62,642 | 18,746 | 81,388 | 57,901 |
| Total salaries and related expenses | 253,148 | 72,443 | 325,591 | 250,360 |
| Professional fees and contract service payments | 50,857 | 15,269 | 66,126 | 92,869 |
| Supplies | 12,483 | 9,297 | 21,780 | 17,205 |
| Telephone | 21,677 | 2,234 | 23,911 | 20,838 |
| Postage and shipping | 417 | 1,698 | 2,115 | 1,015 |
| Occupancy (Note 5) | 326,500 | 554 | 327,054 | 308,135 |
| Equipment rental and maintenance (Note 3) | 14,993 | 6,189 | 21,182 | 28,179 |
| Transportation | 2,037 | 569 | 2,606 | 5,176 |
| Insurance | | 518 | 518 | 251 |
| Bank charges and custodial fees | 2,233 | 3,314 | 5,547 | 4,062 |
| Food | 352 | 1,216 | 1,568 | 548 |
| Stipends | | | | 8 |
| Membership fees and conferences | 1,332 | 654 | 1,986 | 2,288 |
| Amortization | 38,159 | | 38,159 | 39,101 |
| Bad debts | | | | 180 |
| Miscellaneous | | 594 | 594 | 320 |
| Total expenses (Exhibit B) | \$ 724,188 | \$ 114,549 | \$ 838,737 | \$ 770,535 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BOYS AND GIRLS REPUBLIC, INC.

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|--|-------------------|-------------------|
| Cash flows from operating activities | | |
| Change in net assets (Exhibit B) | \$ 1,114,796 | \$ (71,741) |
| Adjustments to reconcile change in net assets to net cash used by operating activities | | |
| Amortization | 38,159 | 39,101 |
| Contributions restricted for endowment | (1,017,701) | |
| Realized gains on investments | (60,494) | (8,189) |
| Unrealized (gains) losses on investments | (12,608) | 39,382 |
| Decrease (increase) in assets | | |
| Due from contracting agencies | 14,238 | 31,594 |
| Due from Henry Street Settlement | (28,816) | |
| Deposits, prepaid expenses and other assets | | 13,647 |
| Increase (decrease) in liabilities | | |
| Accounts payable and accrued expenses | (7,501) | 1,201 |
| Refundable advances | 14,660 | |
| Due to Henry Street Settlement | (35,271) | (60,449) |
| Net cash used by operating activities | <u>19,462</u> | <u>(15,454)</u> |
| Cash flows from investing activities | | |
| Leasehold improvements | (109,913) | |
| Purchase of investments | (2,190,433) | (1,615) |
| Proceeds from the sale of investments | <u>1,318,281</u> | <u>15,273</u> |
| Net cash provided (used) by investing activities | <u>(982,065)</u> | <u>13,658</u> |
| Cash flows from financing activities | | |
| Proceeds from contributions restricted for endowment | <u>1,017,701</u> | |
| Net change in cash | 55,098 | (1,796) |
| Cash - beginning of year | <u>336,885</u> | <u>338,681</u> |
| Cash - end of year | <u>\$ 391,983</u> | <u>\$ 336,885</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BOYS AND GIRLS REPUBLIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - NATURE OF ORGANIZATION

Boys and Girls Republic, Inc. ("BGR") operates programs devoted to teaching the principles of self-government to young boys and girls. The programs include the city clubhouse, which provides comprehensive athletic, recreational and educational supportive programming, correlated with extensive intra-community activity.

BGR is related to Henry Street Settlement (the Settlement) and its subsidiaries, a nonprofit organization exempt from federal income tax under Internal Revenue Service Code Section 501(c)(3). The financial statements of the Settlement include the financial position, changes in net assets and cash flows of BGR. The Settlement receives cash and expends funds on behalf of BGR. Administrative overhead costs are allocated from the Settlement. BGR is funded primarily by contributions, special events, grants and fees from contracting agencies, and a grant from the Settlement.

BGR is a membership corporation. The Settlement is the sole member and appoints the Board of Directors of the corporation.

BGR is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Method of Accounting

The financial statements are prepared on the accrual basis of accounting.

B. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

C. Summarized Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include 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 BGR's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

-continued-

BOYS AND GIRLS REPUBLIC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Investments

Investments are reported at fair value. BGR invests in various types of investment securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in BGR's financial statements.

E. Due from Contracting Agencies and Allowance for Doubtful Accounts

BGR records revenue and receivables for grants from contracting agencies based on claims for expense reimbursements and program utilization at contracted rates. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Management has determined that an allowance was not required as of June 30, 2013. Interest is not accrued or recorded on outstanding accounts receivable.

F. Leasehold Improvements

Leasehold improvements are recorded at cost. BGR's policy is to capitalize all leasehold improvements in excess of \$5,000 whose useful life is greater than one year. Leasehold improvements are amortized over the shorter of the terms of the leases or the lives of the assets. Amortization is computed on the straight-line method. Estimated useful lives of leasehold improvements are 10 - 25 years.

G. Refundable Advances

Refundable advances consist of unspent cash receipts from contracting agencies as well as the cumulative excess of allowable program revenues over allowable program expenses.

H. Net Assets

Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets are limited by donors to be held in perpetuity.

-continued-

BOYS AND GIRLS REPUBLIC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Grants and Fees from Contracting Agencies

BGR receives funding for many of its programs through contracts principally entered into with New York State and New York City. Certain governmental revenues are recorded based on estimated expenditures incurred and are subject to audit and adjustment by regulatory agencies. Third-party reimbursement adjustments are recorded when reasonably determinable. Revenues from fee-for-service and reimbursement contracts with New York State and New York City are recorded at rates established by the governmental payors. Revenues are recorded based on estimated allowable costs and are subject to audit and adjustment by governmental payors. The effects of such adjustments are recorded when reasonably determinable.

J. Contributions

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

K. In-kind Contributions

In-kind contributions and occupancy expense are recorded for space provided to BGR for program purposes for which rent is not currently being charged. In-kind transactions are reviewed periodically to ensure that the estimates recorded reasonably reflect the estimated fair value of contributed rent.

L. Rental Income and Expense

All leases are operating leases and are reflected on the straight-line basis for all lease agreements. Deferred rent is recorded when material.

M. Functional Expense Presentation

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

-continued-

BOYS AND GIRLS REPUBLIC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below.

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that BGR has the ability to access. Level 2 inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 as compared to those used at June 30, 2012.

- *Common and preferred stocks, exchange-traded fund and corporate obligations* - Valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* - Valued at the net asset value (NAV) of shares held at year end.
- *Alternative investments* - Estimated fair values, in the absence of readily ascertainable market values, have been determined by the investment managers. The methods and procedures used to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities; (2) obtaining valuation-related information from issuers; and/or (3) other analytical data relating to the investment and using other available indications of value.

-continued-

BOYS AND GIRLS REPUBLIC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fair Value Measurements (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while BGR believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

A table setting forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2013 is included in Note 4.

O. Uncertainty in Income Taxes

BGR has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2010 and subsequent remain subject to examination by applicable taxing authorities.

P. Subsequent Events

Subsequent events have been evaluated through December 18, 2013, which is the date the financial statements were available to be issued.

NOTE 3 - EQUIPMENT RENTAL AND MAINTENANCE

Equipment rental and maintenance includes maintenance fees and a portion of the costs of operating leases for copiers incurred by the Settlement and allocated to BGR. In 2013, \$21,182 was allocated by the Settlement in connection with this operating lease.

-continued-

BOYS AND GIRLS REPUBLIC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 4 - INVESTMENTS

The following table sets forth by level, within the fair value hierarchy as described in Note 2, the investment portfolio's assets at fair value as of June 30, 2013:

| | <u>Level 1*</u> | <u>Level 3*</u> | <u>Total</u> |
|----------------------------|---------------------|-------------------|---------------------|
| Common and preferred stock | | | |
| U.S. large cap equity | \$ 390,068 | | \$ 390,068 |
| U.S. mid cap equity | 119,929 | | 119,929 |
| International equity | <u>278,338</u> | | <u>278,338</u> |
| | <u>788,335</u> | | <u>788,335</u> |
| Corporate obligations | <u>354,817</u> | | <u>354,817</u> |
| Mutual funds | | | |
| Intermediate-term bonds | 7,386 | | 7,386 |
| Large cap - blend | 3,480 | | 3,480 |
| Large cap - growth | 10,268 | | 10,268 |
| Large cap - value | 17,836 | | 17,836 |
| Medium cap - growth | 27,546 | | 27,546 |
| Medium cap - blend | 197,208 | | 197,208 |
| Medium cap - value | 15,849 | | 15,849 |
| Small cap - value | <u>2,422</u> | | <u>2,422</u> |
| | <u>281,995</u> | | <u>281,995</u> |
| Exchange-traded fund | <u>28,950</u> | | <u>28,950</u> |
| Alternative investments | | \$ <u>428,515</u> | <u>428,515</u> |
| Grand total | \$ <u>1,454,097</u> | \$ <u>428,515</u> | \$ <u>1,882,612</u> |

-continued-

BOYS AND GIRLS REPUBLIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 - INVESTMENTS (continued)

Level 3 investments

A summary of changes in Level 3 investments is as follows:

| | <u>Level 3</u> |
|---|-----------------------|
| Balance, beginning of year | \$ 331,987 |
| Unrealized gain | 24,201 |
| Realized gain | 3,863 |
| Sales | (335,850) |
| Purchases | <u>404,314</u> |
| Balance, end of year | \$ <u>428,515</u> |
| * The amount of total gains for the period included in changes in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date | |
| | \$ <u>24,201</u> |

-continued-

BOYS AND GIRLS REPUBLIC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 4 - INVESTMENTS (continued)

Level 3 investments (continued)

| <u>Fund Name</u> | <u>Redemption Frequency</u> | <u>Notice Period</u> | <u>Description of Fund</u> | <u>Amount</u> |
|------------------|-----------------------------|----------------------|--|---------------|
| Fund A | Monthly | 35 days | The fund is a long/short fixed-income hedge fund which seeks to achieve a total return by investing in fixed income securities of issuers domiciled in or which derive a significant portion of revenues from emerging market countries worldwide. The fund invests in a portfolio of core emerging market credit with exposure to sovereign, corporate and local market sub-sectors, with the flexibility to employ a macro overlay strategy as a risk mitigation tool as and when market conditions necessitate. | \$ 38,887 |
| Funds B | Quarterly | 70 days | The overall long/short strategy of the fund seeks to construct a portfolio in which performance of the fund is determined by stock selection and not overly influenced by overall market direction. The fund aims to construct each portfolio with low gross and low net market exposures to allow stock selection on both the long and short sides to drive returns. | 41,290 |

-continued-

BOYS AND GIRLS REPUBLIC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 4 - INVESTMENTS (continued)

Level 3 investments (continued)

| <u>Fund Name</u> | <u>Redemption Frequency</u> | <u>Notice Period</u> | <u>Description of Fund</u> | <u>Amount</u> |
|------------------|-----------------------------|----------------------|--|---------------|
| Fund C | Quarterly | 45 days | The fund's approach to asset allocation maximizes the diversification of a portfolio by balancing the allocation of risk across structurally unrelated asset classes so that their environmental exposures offset each other, leaving the accrual of the risk premium as the dominant element of returns. This is accomplished by holding a similar risk exposure to assets that do well when 1.) inflation rises, 2.) inflation falls, 3.) growth rises and 4.) growth falls. The strategy combines a highly diversified set of uncorrelated alpha return streams. Positions in each market are driven by thorough, individual assessments of the unique fundamentals drivers of that market that are applied in a systematic decision-making process. The strategy is designed to deliver a high information ratio from active management with a low correlation to markets and other active managers. | \$ 49,907 |
| Fund D | Quarterly | 50 days | The fund is designed to benefit from the complementary risk profiles of the Impala Fund and the Steenbok Fund. Additionally, exposure to the transportation-focused Steenbok Fund may present attractive opportunities for the Diversified Fund. | 38,183 |
| Fund E | Quarterly | 65 days | The fund focuses on three investment strategies: trading, arbitrage and long/short investment. The market-neutral trading and arbitrage strategies give the fund the flexibility to pursue long-term opportunities in its long/short investment strategy. | 52,973 |

-continued-

BOYS AND GIRLS REPUBLIC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 4 - INVESTMENTS (continued)

Level 3 investments (continued)

| <u>Fund Name</u> | <u>Redemption Frequency</u> | <u>Notice Period</u> | <u>Description of Fund</u> | <u>Amount</u> |
|------------------|-----------------------------|----------------------|---|---------------|
| Fund F | Semi-annually | 65 days | The fund is a \$1.0 billion multi-strategy credit hedge fund which seeks to provide investors with attractive risk-adjusted returns through fundamental, bottom-up research in under-followed securities. | \$ 41,502 |
| Fund G | Quarterly | 65 days | The fund is an event-driven fund focused on achieving strong total returns by using a value based, bottom-up approach to investing globally. The fund intends to be both long and short in securities throughout companies' capital structures. | 52,906 |
| Fund H | Monthly | 7 days | The fund is a diversified systematic fund. The fund seeks long-term capital appreciation through the development of mathematical methods applied to investments in futures markets. Specifically, the fund creates statistically-driven computer models that are designed to identify small but persistent inefficiencies across various equity, interest rate, commodity and currency futures markets. | 40,080 |
| Fund I | Annually | 65 days | The fund seeks to generate positive returns across market cycles by investing principally in the securities of companies undergoing credit oriented restructuring and reorganizations, including, pursuant to Chapter 11 of the United States Bankruptcy Code, companies engaged in various types of balance sheet restructurings, and companies whose securities trade at levels that the fund does not believe reflect their intrinsic value. | 54,454 |

-continued-

BOYS AND GIRLS REPUBLIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 - INVESTMENTS (continued)

Level 3 investments (continued)

| <u>Fund Name</u> | <u>Redemption Frequency</u> | <u>Notice Period</u> | <u>Description of Fund</u> | <u>Amount</u> |
|---------------------------|-----------------------------|----------------------|---|-------------------|
| Fund J | Quarterly | 65 days | Inflation protection is a broad asset category which includes investments that are designed to protect the portfolio during heightened inflationary environments, but are not entirely dependent upon inflation for a successful outcome. These strategies can include Emerging Market Currencies, Global Macro, Real Estate, Commodities, and the like. | \$ 9,416 |
| Fund K | 10 years | N/A | The fund is a locked-down fund for 10 years. Starwood has established the fund to pursue a global opportunistic real estate strategy. The fund seeks to achieve attractive returns by focusing opportunistically on transactions in the following categories: i) distressed debt, ii) direct / income-producing assets, iii) development in emerging markets and iv) corporate. | <u>8,917</u> |
| Total Level 3 investments | | | | <u>\$ 428,515</u> |

-continued-

BOYS AND GIRLS REPUBLIC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 5 - FACILITIES

The BGR clubhouse is located at 888 East 6th Street, New York, New York in a building provided by the City of New York without a rental charge. In accordance with accounting principles generally accepted in the United States of America, the value of an in-kind contribution of \$221,000 is included in grants and fees from contracting agencies and occupancy expense to reflect the estimated fair value of contributed rent.

NOTE 6 - CONCENTRATIONS

Financial instruments which potentially subject the organization to a concentration of credit risk are cash accounts with a financial institution in excess of FDIC insurance limits.

NOTE 7 - NET ASSETS

Temporarily restricted net assets are available for the following purpose:

| | |
|----------------|-------------------|
| Youth programs | \$ <u>496,802</u> |
|----------------|-------------------|

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purpose:

| | |
|----------------------|-------------------|
| Youth programs | |
| Program restrictions | \$ 183,800 |
| Income distribution | 21,928 |
| Capital acquisitions | <u>27,189</u> |
| | \$ <u>232,917</u> |

Permanently Restricted Funds - Endowments**General**

BGR's permanently restricted net assets consist of endowment fund assets to be held in perpetuity. The income from the assets can be used to support the youth programs.

As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

-continued-

BOYS AND GIRLS REPUBLIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7 - NET ASSETS (continued)

Permanently Restricted Funds - Endowments (continued)

Interpretation of Relevant Law

The Board of Directors of BGR has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. BGR is now governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, BGR classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the BGR in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of BGR is to maintain the principal endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in low-risk securities. Interest earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established.

Funds with Deficiencies

BGR does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund

| | |
|----------------|---------------------|
| Youth programs | |
| Summer camp | \$ 368,835 |
| Other programs | <u>1,442,881</u> |
| | <u>\$ 1,811,716</u> |

-continued-

BOYS AND GIRLS REPUBLIC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 7 - NET ASSETS (continued)

*Permanently Restricted Funds - Endowments (continued)*Changes in Endowment Net Assets for the Year Ended June 30, 2013

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | | \$ 396,584 | \$ 794,015 | \$ 1,190,599 |
| Contributions | | | 1,017,701 | 1,017,701 |
| Interest and dividends | | 16,356 | | 16,356 |
| Net realized and unrealized loss on investments | | 73,102 | | 73,102 |
| Appropriated for expenditures | \$ 21,928 | (21,928) | | |
| Expenses | <u>(21,928)</u> | <u> </u> | <u> </u> | <u>(21,928)</u> |
| Endowment net assets, end of year | \$ <u>-</u> | \$ <u>464,114</u> | \$ <u>1,811,716</u> | \$ <u>2,275,830</u> |

NOTE 8 - PENSION EXPENSE

BGR provides a 403(b) defined-contribution plan and contributes 5% of base salary for eligible employees. Pension expense for the fiscal year ended June 30, 2013 totaled \$5,227.

NOTE 9 - CONTINGENCIES

BGR is responsible to report to various third parties as well as the New York State Office of the Attorney General and the Internal Revenue Service. They, as well as the Office of Inspector General (OIG), have the right to audit BGR and adjust assigned reimbursement rates. These agencies have the right to audit fiscal as well as programmatic compliance requirements.

NOTE 10 - INSURANCE RECOVERY

In 2013, BGR received insurance proceeds of \$82,724 to repair real property damaged during Hurricane Sandy.