
BOYS HOPE GIRLS HOPE
FINANCIAL STATEMENTS
JUNE 30, 2013



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Independent Auditors' Report

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

Report On The Financial Statements

We have audited the accompanying financial statements of Boys Hope Girls Hope (the Organization), a not-for-profit organization, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

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 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 Hope Girls Hope as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

RubinBrown LLP

November 4, 2013

BOYS HOPE GIRLS HOPE

STATEMENT OF FINANCIAL POSITION

Assets

	June 30,	
	2013	2012
Cash and cash equivalents	\$ 116,107	\$ 85,090
Grant receivable	24,635	60,999
Pledges receivable (Note 3)	96,230	144,232
Investments (Note 4)	4,647,461	4,388,556
Retirement plan assets (Note 5)	246,637	217,480
Due from affiliates (Note 6)	465,096	439,717
Property and equipment (Notes 7, 8, 9 and 11)	703,998	635,194
Other assets	4,928	4,928
Investments restricted for endowment (Note 4)	8,343,044	8,343,044
Total Assets	\$ 14,648,136	\$ 14,319,240

Liabilities And Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 285,344	\$ 327,646
Due to affiliates (Note 6)	10,000	81,165
Retirement plan liabilities (Note 5)	182,765	158,063
Refundable advance	100,000	—
Capital lease obligations (Note 11)	135,571	—
Note payable (Note 8)	56,727	53,752
Bonds payable (Note 9)	45,000	75,000
Total Liabilities	815,407	695,626

Net Assets

Unrestricted	1,182,754	1,080,766
Temporarily restricted (Note 12)	4,306,931	4,199,804
Permanently restricted (Note 12)	8,343,044	8,343,044
Total Net Assets	13,832,729	13,623,614

	\$ 14,648,136	\$ 14,319,240
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BOYS HOPE GIRLS HOPE

STATEMENT OF ACTIVITIES

	For The Year Ended June 30, 2013				For The Year Ended June 30, 2012			
	Unrestricted	Temporarily	Permanently	Total	Unrestricted	Temporarily	Permanently	Total
		Restricted	Restricted			Restricted		
Public Support And Revenues								
Contributions	\$ 708,772	\$ 607,903	\$ —	\$ 1,316,675	\$ 561,802	\$ 314,929	\$ —	\$ 876,731
Government grants	68,581	—	—	68,581	212,269	—	—	212,269
Support from local affiliates (Note 6)	335,620	—	—	335,620	335,421	—	—	335,421
Investment income (loss) (Note 4)	409,257	868,516	—	1,277,773	(201,567)	(300,731)	—	(502,298)
Other income	21,894	—	—	21,894	31,428	—	—	31,428
Investment return designated for current operations (Notes 4, 12 and 14)	623,500	(623,500)	—	—	690,000	(690,000)	—	—
Net assets released from restrictions (Note 12)	745,792	(745,792)	—	—	784,869	(784,869)	—	—
Total Public Support And Revenues	2,913,416	107,127	—	3,020,543	2,414,222	(1,460,671)	—	953,551
Expenses								
Program services	2,366,514	—	—	2,366,514	2,298,412	—	—	2,298,412
Supporting activities:								
Management and general	390,860	—	—	390,860	440,627	—	—	440,627
Fundraising	42,500	—	—	42,500	73,468	—	—	73,468
Total Supporting Activities	433,360	—	—	433,360	514,095	—	—	514,095
Total Expenses	2,799,874	—	—	2,799,874	2,812,507	—	—	2,812,507
Increase (Decrease) In Net Assets From Operations	113,542	107,127	—	220,669	(398,285)	(1,460,671)	—	(1,858,956)
Other Gains (Losses)								
Loss from involuntary conversion (Note 7)	(11,554)	—	—	(11,554)	—	—	—	—
Increase (Decrease) In Net Assets	101,988	107,127	—	209,115	(398,285)	(1,460,671)	—	(1,858,956)
Net Assets - Beginning Of Year	1,080,766	4,199,804	8,343,044	13,623,614	1,479,051	5,660,475	8,343,044	15,482,570
Net Assets - End Of Year	\$ 1,182,754	\$ 4,306,931	\$ 8,343,044	\$ 13,832,729	\$ 1,080,766	\$ 4,199,804	\$ 8,343,044	\$ 13,623,614

BOYS HOPE GIRLS HOPE

STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended June 30, 2013

	Program Services	Supporting Activities			Total
	General Operations	Management And General	Fundraising	Total	
Salaries, payroll taxes and benefits	\$ 1,032,656	\$ 237,677	\$ 29,371	\$ 267,048	\$ 1,299,704
Program support and administration	309,561	1,774	1,395	3,169	312,730
Scholarship	271,013	—	—	—	271,013
Depreciation and amortization	48,405	17,287	3,457	20,744	69,149
Information technology	103,499	25,790	4,658	30,448	133,947
Insurance, licenses, dues and property taxes	16,278	17,648	—	17,648	33,926
Interest and bank fees	4,052	17,553	—	17,553	21,605
International assistance	367,312	—	—	—	367,312
Postage and stationery	781	2,623	—	2,623	3,404
Professional fees	76,869	30,628	—	30,628	107,497
Promotion and marketing	3,505	3,603	290	3,893	7,398
Repairs and maintenance	15,391	5,496	1,099	6,595	21,986
Staff recruiting and education	21,709	1,826	298	2,124	23,833
Supplies	2,029	8,405	—	8,405	10,434
Travel	49,014	12,084	239	12,323	61,337
Utilities	28,361	8,466	1,693	10,159	38,520
Volunteers' expenses	16,079	—	—	—	16,079
	\$ 2,366,514	\$ 390,860	\$ 42,500	\$ 433,360	\$ 2,799,874

BOYS HOPE GIRLS HOPE

STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended June 30, 2012

	Program Services	Supporting Activities			Total
	General Operations	Management And General	Fundraising	Total	
Salaries, payroll taxes and benefits	\$ 991,930	\$ 317,161	\$ 64,773	\$ 381,934	\$ 1,373,864
Program support and administration	368,306	4,485	—	4,485	372,791
Scholarship	254,768	—	—	—	254,768
Depreciation and amortization	47,813	15,274	3,320	18,594	66,407
Information technology	58,839	13,421	821	14,242	73,081
Insurance, licenses, dues and property taxes	16,000	14,005	—	14,005	30,005
Interest and bank fees	4,110	12,119	—	12,119	16,229
International assistance	325,330	—	—	—	325,330
Postage and stationery	4,010	4,134	—	4,134	8,144
Professional fees	64,951	27,850	—	27,850	92,801
Promotion and marketing	1,876	2,189	—	2,189	4,065
Repairs and maintenance	25,991	8,303	1,805	10,108	36,099
Staff recruiting and education	25,381	2,869	595	3,464	28,845
Supplies	1,989	9,889	—	9,889	11,878
Travel	69,728	595	474	1,069	70,797
Utilities	24,190	7,727	1,680	9,407	33,597
Volunteers' expenses	13,200	606	—	606	13,806
	\$ 2,298,412	\$ 440,627	\$ 73,468	\$ 514,095	\$ 2,812,507

BOYS HOPE GIRLS HOPE

STATEMENT OF CASH FLOWS

	For The Years	
	Ended June 30,	
	2013	2012
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 209,115	\$ (1,858,956)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation and amortization	69,149	66,407
Loss on involuntary conversion	11,554	—
Accretion of discount on note payable	2,975	2,705
Imputed interest on capital lease obligation	6,132	—
Realized gain on sale of investments	(1,143,501)	(513,495)
Unrealized loss on investments	10,722	1,316,108
Changes in assets and liabilities:		
(Increase) decrease in grant receivable	36,364	(60,999)
(Increase) decrease in pledges receivable	48,002	(11,014)
(Increase) decrease in due from affiliates	(25,379)	52,805
Increase in retirement plan assets (net)	(4,455)	(6,142)
Increase in other assets	—	(54)
Increase (decrease) in accounts payable and accrued expenses	(42,302)	73,139
Increase (decrease) in due to affiliates	(71,165)	10,635
Increase in refundable advance	100,000	—
Net Cash Used In Operating Activities	(792,789)	(928,861)
Cash Flows From Investing Activities		
Purchase of investments	(13,033,795)	(1,194,950)
Proceeds from sale of investments	13,907,669	2,089,046
Receipts on capital leases receivable	—	2,389
Insurance proceeds received from involuntary conversion	22,624	—
Purchases of property and equipment	(5,901)	—
Net Cash Provided By Investing Activities	890,597	896,485
Cash Flows From Financing Activities		
Principal payments on capital lease obligation	(36,791)	—
Principal payments on bonds payable	(30,000)	(30,000)
Net Cash Used In Financing Activities	(66,791)	(30,000)
Net Increase (Decrease) In Cash And Cash Equivalents	31,017	(62,376)
Cash And Cash Equivalents - Beginning Of Year	85,090	147,466
Cash And Cash Equivalents - End Of Year	\$ 116,107	\$ 85,090
Supplemental Cash Flow Information		
Interest paid	\$ 7,218	\$ 7,002
Noncash investing and financing activities (Note 15)		

BOYS HOPE GIRLS HOPE

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 And 2012

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 maintains its cash balances with financial institutions with strong credit ratings. At times, such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit, which is \$250,000 per financial institution.

Pledges And Grants 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 and grants receivable are reported at the amount management expects to collect on balances outstanding at year end.

BOYS HOPE GIRLS HOPE

Notes To Financial Statements (*Continued*)

An allowance for uncollectible pledges and grants 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 pledges and grants receivable. Management has determined that an allowance for uncollectible pledges and grants receivable is not necessary as of June 30, 2013. 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 receivables. 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 and grants 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. Additions exceeding \$2,500 are capitalized. The assets are depreciated and amortized over the following periods:

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

BOYS HOPE GIRLS HOPE

Notes To Financial Statements (*Continued*)

Refundable Advance

Conditional gifts, which depend upon specified future and uncertain events, are recognized as revenue when the conditions upon which they depend are substantially met. Until conditions are met, gifts are recorded as a liability on the statement of financial position.

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.

Government Grants

The Organization has a three-year grant from the Corporation for National and Community Service to fund the Organization's Links Mentoring program, which expires in September 2015. Revenue is recognized as reimbursable expenses for this program are incurred. Reimbursable expenses incurred in excess of grant funds received are recorded as a grant receivable.

Donated Services

Donated services that meet the criteria for recognition under generally accepted accounting principles are recorded at fair value on the date of the donation. Donated technology services of \$76,323 were received in 2013. There were no donated services received in 2012.

BOYS HOPE GIRLS HOPE

Notes To Financial Statements (*Continued*)

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 activities 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.

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 on related, exempt income.

BOYS HOPE GIRLS HOPE

Notes To Financial Statements (*Continued*)

The federal tax returns for tax years ended June 30, 2010 and later remain subject to examination by taxing authorities.

Reclassifications

Certain amounts in the 2012 financial statements were reclassified, where appropriate, to conform to the presentation used in the 2013 financial statements.

Subsequent Events

Management has evaluated subsequent events through November 4, 2013, the date which the financial statements were available for issue.

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’s 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 scholarships of \$2,000 from the local affiliates.

The National Office’s fundraising activities provide for the services described above while each affiliate generates operating support for the homes.

Each U.S. affiliate is separately incorporated in its respective state, but is covered by a group 501(c)(3) exemption.

BOYS HOPE GIRLS HOPE

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, 2013 and 2012, no National Campaign contribution revenue was received or recorded. The Organization had National Campaign pledges receivable of \$8,969 at June 30, 2012. These pledges receivable were written off during 2013.

As part of the National Campaign, the Organization 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.

Match amounts from the Organization for the challenge grant are included in due to affiliates on the statement of financial position (Note 7). No expenses were incurred relating to the challenge grant during 2013 and 2012.

Pledges receivable are expected to be collected in the following periods:

	2013		
	National Campaign	Operational Fund	Total
Less than one year	\$ —	\$ 50,000	\$ 50,000
One to five years	—	50,000	50,000
	—	100,000	100,000
Less: Discount on pledges receivable	—	3,770	3,770
	\$ —	\$ 96,230	\$ 96,230

	2012		
	National Campaign	Operational Fund	Total
Less than one year	\$ 8,969	\$ 130,090	\$ 139,059
One to five years	—	20,000	20,000
	8,969	150,090	159,059
Less: Discount on pledges receivable	—	676	676
Less: Allowance for doubtful accounts	8,969	5,182	14,151
	\$ —	\$ 144,232	\$ 144,232

Pledges receivable are recorded after discounting to the present value of future cash flows using discount rates ranging from 3.5% to 4%.

BOYS HOPE GIRLS HOPE

Notes To Financial Statements (Continued)

4. Investments

Investments are recorded at fair value and consist of:

	<u>2013</u>	<u>2012</u>
Cash equivalents	\$ 1,284,731	\$ 115,060
Certificates of deposit	541,228	—
Treasury Inflation-Protected Securities (TIPS)	445,075	—
Bond funds		
Municipal	882,151	—
Short-term	7,624	7,500
Intermediate term	—	918,347
Nontraditional	12,003	4,311
High yield	10,595	3,870
Multisector	24,406	14,722
Emerging markets	293,635	—
World bond	—	743,413
Equity funds		
Emerging markets	310,040	1,050,177
Foreign large cap blend	320,849	789,248
Foreign large cap value	321,173	820,256
Foreign large cap growth	302,338	—
Foreign small/mid cap blend	354,374	361,013
World allocation	29,792	1,072,424
Small cap value	470,569	—
Small cap growth	455,304	—
Mid cap value	474,092	—
Mid cap growth	456,498	—
Mid cap blend	—	380,738
Large cap value	661,839	1,177,006
Large cap growth	653,977	2,093,309
Large cap blend	7,214	784,770
Managed futures	820,562	—
Natural resources	—	668,112
Hedged strategies	1,653,397	—
Real estate	814,727	—
Equity securities		
Basic materials	67,748	—
Consumer goods	136,024	—
Financial	262,058	—
Industrial goods	100,343	—
Healthcare	261,396	—
Services	390,534	—
Technology	346,974	—
Alternative hedge funds	—	1,885,386
	<u>13,173,270</u>	<u>12,889,662</u>
Less: Retirement plan investments	182,765	158,062
Less: Investments restricted for endowment	8,343,044	8,343,044
	<u>\$ 4,647,461</u>	<u>\$ 4,388,556</u>

BOYS HOPE GIRLS HOPE

Notes To Financial Statements (Continued)

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.

Investment income (loss) consists of:

	<u>2013</u>	<u>2012</u>
Interest and dividend income (net)	\$ 144,994	\$ 300,315
Realized gains	1,143,501	513,495
Unrealized losses	(10,722)	(1,316,108)
	<u>\$ 1,277,773</u>	<u>\$ (502,298)</u>

In 2013 and 2012, interest and dividend income is net of investment fees of \$74,545 and \$43,377, 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 \$30,885 and \$27,473 in 2013 and 2012, 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, 2013 and 2012, the pension plan assets include:

	<u>2013</u>	<u>2012</u>
Investments (Note 4)	\$ 182,765	\$ 158,062
Cash surrender value of life insurance	63,872	59,418
	<u>\$ 246,637</u>	<u>\$ 217,480</u>

BOYS HOPE GIRLS HOPE

Notes To Financial Statements (*Continued*)

The pension plan liabilities represent the actuarial present value of benefits related to prior employees' service.

6. Affiliations And Related Parties

As of June 30, 2013, 15 local affiliate locations are incorporated in the following locations:

St. Louis, Missouri
Brooklyn, New York
Chicago, Illinois
New Orleans, Louisiana
Cincinnati, Ohio
Detroit, Michigan
Cleveland, Ohio
Phoenix, Arizona
Southern California
Pittsburgh, Pennsylvania
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

Subsequent to year end, due to changes in the government regulations in Brazil, the international affiliate in Sao Paulo, Brazil is no longer able to operate a residential program. As a result, this affiliate will become inactive.

Affiliates are required to pay an assessment under a contractual agreement. During fiscal years 2013 and 2012, such assessments totaled \$335,620 and \$335,421, respectively. At June 30, 2013 and 2012, the Organization was due \$465,096 and \$439,717, 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, 2013 and 2012, the Organization owed \$10,000 and \$81,165, respectively, to its affiliates.

BOYS HOPE GIRLS HOPE

Notes To Financial Statements (Continued)

At June 30, 2012, the Southern California affiliate had an outstanding balance of approximately \$73,000 on a \$75,000 line of credit that had been co-signed by the Organization. This line of credit was paid off during 2013.

At June 30, 2012, the San Francisco affiliate had an outstanding balance of approximately \$40,000 on a \$75,000 line of credit that had been co-signed by the Organization. This line of credit was paid off during 2013.

7. Property And Equipment

Property and equipment consist of:

	<u>2013</u>	<u>2012</u>
Building and improvements	\$ 882,383	\$ 1,121,111
Computer equipment	536,730	370,500
Computer equipment under capital leases (Note 11)	166,230	—
Furniture and equipment	193,018	193,018
Construction in progress	5,901	—
	<u>1,784,262</u>	<u>1,684,629</u>
Less: Accumulated depreciation and amortization	1,080,264	1,049,435
	<u>\$ 703,998</u>	<u>\$ 635,194</u>

Depreciation and amortization charged to expense amounted to \$69,149 in 2013 and \$66,407 in 2012.

During 2013, a portion of the Organization's building was damaged in a storm, resulting in a loss from involuntary conversion of \$11,554. The net book value of the property damaged was \$34,178. Insurance proceeds of \$22,624 were received in 2013. Additional insurance proceeds are expected in 2014, as the damaged property continues to be repaired.

8. Note Payable

During 1990, the Organization constructed a house in Phoenix, Arizona to be used by the 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.

BOYS HOPE GIRLS HOPE

Notes To Financial Statements (Continued)

The note payable consists of the following:

	<u>2013</u>	<u>2012</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%	\$ 56,727	\$ 53,752

Interest incurred on the note payable during 2013 and 2012 totaled \$5,375 and \$4,340, respectively.

9. Industrial Development Authority Bonds Payable

The bonds payable consist of the following:

	<u>2013</u>	<u>2012</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, 2013 and 2012)	\$ 45,000	\$ 75,000

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 or after January 1, 2010. The bonds can 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 2013 and 2012 totaled \$1,843 and \$2,662, respectively.

Future required principal payments on all financing obligations are as follows, assuming the holder of the bonds does not exercise its early redemption rights:

<u>Year</u>	<u>Note Payable</u>	<u>Bonds Payable</u>	<u>Total</u>
2014	\$ 56,727	\$ 30,000	\$ 86,727
2015	—	15,000	15,000
	<u>\$ 56,727</u>	<u>\$ 45,000</u>	<u>\$ 101,727</u>

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Notes To Financial Statements (Continued)

10. Line Of Credit

The Organization has a revolving line-of-credit agreement with a maximum draw amount of \$250,000. There was no outstanding balance at June 30, 2013 and 2012. Interest is payable monthly at the prime rate not to be less than 4%. Under the terms of this agreement, any outstanding balance is payable on demand.

11. Capital Leases

The Organization is the lessee of computer equipment under capital leases expiring between July 2016 and August 2017. The assets and liabilities under these capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation and amortization expense.

Following is a summary of equipment held under capital leases at June 30, 2013:

Computer equipment	\$ 166,230
Less: Accumulated depreciation	<u>(33,246)</u>
	<u>\$ 132,984</u>

The interest rate on the capitalized leases ranges from 0% to 5.4%, which was imputed based on the lower of the Organization's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return. The capital leases allow for a purchase option representing the expected fair value of the equipment at the expiration of the lease terms.

Minimum future lease payments under the capital lease as of June 30, 2013 were as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 36,320
2015	39,622
2016	34,444
2017	33,973
2018	5,662
Net minimum lease payments	150,021
Less: Amount representing interest	<u>14,450</u>
Present value of net minimum lease payments	<u>\$ 135,571</u>

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Notes To Financial Statements (Continued)

12. Net Assets

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

	2013		2012	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
National Campaign and affiliate support	\$ 2,775,228	\$ —	\$ 2,800,366	\$ —
International	300,805	200,000	195,443	200,000
Jean T. McKenna National Scholarship	92,714	1,059,638	182,367	1,059,638
Other funded projects	588,291	—	679,757	—
Boys Hope Girls Hope Endowment Fund	549,893	7,083,406	341,871	7,083,406
	<u>\$ 4,306,931</u>	<u>\$ 8,343,044</u>	<u>\$ 4,199,804</u>	<u>\$ 8,343,044</u>

Net assets were released from donor restrictions as follows:

	2013	2012
National Campaign and affiliate support	\$ 25,138	\$ 36,103
International	352,365	332,539
Jean T. McKenna National Scholarship	191,823	292,887
Other funded projects	176,466	123,340
	<u>\$ 745,792</u>	<u>\$ 784,869</u>

Investment return earned by the Organization's endowment funds (Note 14) was designated for current operations as follows:

	2013	2012
National Campaign and affiliate support	\$ 529,363	\$ 585,823
International	14,947	16,541
Jean T. McKenna National Scholarship	79,190	87,636
	<u>\$ 623,500</u>	<u>\$ 690,000</u>

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Notes To Financial Statements (*Continued*)

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.

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Notes To Financial Statements (Continued)

13. 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 years ended June 30, 2013 and 2012, using quoted prices in active markets (Level 1); significant observable inputs for similar assets (Level 2); and significant unobservable inputs (Level 3):

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ —	\$ 541,228	\$ —	\$ 541,228
Treasury Inflation-Protected Securities (TIPS)	—	445,075	—	445,075
Bond funds				
Municipal	882,151	—	—	882,151
Short-term	7,624	—	—	7,624
Nontraditional	12,003	—	—	12,003
High yield	10,595	—	—	10,595
Multisector	24,406	—	—	24,406
Emerging markets	293,635	—	—	293,635
Equity funds				
Emerging markets	310,040	—	—	310,040
Foreign large cap blend	320,849	—	—	320,849
Foreign large cap value	321,173	—	—	321,173
Foreign large cap growth	302,338	—	—	302,338
Foreign small/mid cap blend	354,374	—	—	354,374
World allocation	29,792	—	—	29,792
Small cap value	470,569	—	—	470,569
Small cap growth	455,304	—	—	455,304
Mid cap value	474,092	—	—	474,092
Mid cap growth	456,498	—	—	456,498
Large cap value	661,839	—	—	661,839
Large cap growth	653,977	—	—	653,977
Large cap blend	7,214	—	—	7,214
Managed futures	820,562	—	—	820,562
Hedged strategies	1,653,397	—	—	1,653,397
Real estate	814,727	—	—	814,727
Equity securities				
Basic materials	67,748	—	—	67,748
Consumer goods	136,024	—	—	136,024
Financial	262,058	—	—	262,058
Industrial goods	100,343	—	—	100,343
Healthcare	261,396	—	—	261,396
Services	390,534	—	—	390,534
Technology	346,974	—	—	346,974
	\$ 10,902,236	\$ 986,303	\$ —	\$ 11,888,539

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Notes To Financial Statements (Continued)

	June 30, 2012			Total
	Level 1	Level 2	Level 3	
Bond funds				
Municipal	\$ 7,500	\$ —	\$ —	\$ 7,500
Short-term	918,347	—	—	918,347
Intermediate term	4,311	—	—	4,311
Nontraditional	3,870	—	—	3,870
High yield	14,722	—	—	14,722
World bond	743,413	—	—	743,413
Equity funds				
Emerging markets	1,050,177	—	—	1,050,177
Foreign large cap blend	789,248	—	—	789,248
Foreign large cap value	820,256	—	—	820,256
Foreign small/mid cap blend	361,013	—	—	361,013
World allocation	1,072,424	—	—	1,072,424
Mid cap blend	380,738	—	—	380,738
Large cap value	1,177,006	—	—	1,177,006
Large cap growth	2,093,309	—	—	2,093,309
Large cap blend	784,770	—	—	784,770
Natural resources	668,112	—	—	668,112
Alternative hedge funds	—	—	1,885,386	1,885,386
	<u>\$ 10,889,216</u>	<u>\$ —</u>	<u>\$ 1,885,386</u>	<u>\$ 12,774,602</u>

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, 2013 and 2012:

	<u>Alternative Hedge Fund Investments</u>
Balance at July 1, 2011	\$ 894,709
Purchase of investment	1,000,000
Dividends and interest, net of fees	12,433
Unrealized loss	<u>(21,756)</u>
Balance at June 30, 2012	1,885,386
Sale of investment	(1,926,025)
Dividends and interest, net of fees	2,509
Realized loss	(655)
Unrealized gain	<u>38,785</u>
Balance at June 30, 2013	<u><u>\$ —</u></u>

Change in the value of the alternative hedge fund investments is presented within the total investment income (loss) as shown separately on the Organization's statement of activities for the years ended June 30, 2013 and 2012.

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Notes To Financial Statements (Continued)

The Organization has adopted ASC 820-10-15-4, *Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. Under the guidance, a reporting entity is permitted, as a practical expedient, to estimate the fair value of certain portfolio investments on the basis of the net asset value per share. In the normal course of business, during 2012, the Organization held certain investments that would qualify for the usage of the practical expedient.

At June 30, 2012, the alternative hedge fund investments were valued at net asset value determined by the fund managers generally based upon observable prices for underlying assets which were not quoted in active markets. The investments in the alternative hedge funds were subject to restrictions on withdrawal which had an indeterminable factor on the asset valuation.

The following table summarized the Organization's investments in entities that calculate net asset value per share (or its equivalents):

	June 30, 2012			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled private investment funds ^(a)	\$ 881,150	\$ —	Quarterly	100 days 10 days before month end
Commingled bond fund ^(b)	1,004,236	—	Monthly	end
Total investments	\$ 1,885,386	\$ —		

- a. This fund employs a group of portfolio managers who invest funds using three overall strategies: Absolute Return, Security Selection and Hedging. Absolute return strategies are expected to produce consistent, low volatility returns and can invest across the entire spectrum of investment strategies. Security selection strategies are usually bi-directional and focus on idiosyncratic risks or situations. These strategies generally carry greater return/risk profiles. Hedging strategies are designed to provide short exposure to traditional markets capable of producing strong results in times of market stress. This fund has the ability to liquidate its investments periodically, ranging from monthly to every two years, depending on the provisions of the respective private investment fund's governing agreement. Additionally, most private investment fund governing documents provide the general partner or manager with the ability to suspend, postpone, or limit redemptions.

- b. The objective of this fund is to achieve favorable income-oriented returns from a globally diversified portfolio of primarily debt or debt-like securities, as well as to preserve and enhance principal. The underlying fund assets consist primarily of debt securities issued by foreign governments. Forward contracts are used in the management of this fund's currency risk and the manager undertakes currency hedging to generate desired exposures.

The alternative hedge funds were sold during 2013.

14. Endowment Funds

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

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as 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. As a result of this interpretation, the Organization 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. Investment earnings that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the funds;
- (2) The purposes of the Organization and the donor-restricted endowment funds;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;

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Notes To Financial Statements (Continued)

- (5) The expected total return from income and appreciation of investments;
- (6) Other resources of the Organization; and
- (7) The investment policies of the Organization.

Endowment Net Asset Composition

As of June 30, the Organization had the following endowment funds:

	2013		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 647,683	\$ 8,343,044	\$ 8,990,727

	2012		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 402,667	\$ 8,343,044	\$ 8,745,711

Changes In Endowment Assets For The Fiscal Years Ended June 30, 2013 And 2012:

	Temporarily Restricted	Permanently Restricted	Total
Endowment assets at June 30, 2011	\$ 1,393,398	\$ 8,343,044	\$ 9,736,442
Investment loss	(300,731)	—	(300,731)
Appropriation of endowment assets for expenditure	(690,000)	—	(690,000)
Endowment assets at June 30, 2012	402,667	8,343,044	8,745,711
Investment income	868,516	—	868,516
Appropriation of endowment assets for expenditure	(623,500)	—	(623,500)
Endowment assets at June 30, 2013	\$ 647,683	\$ 8,343,044	\$ 8,990,727

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, 2013.

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.

15. Supplemental Cash Flow Information

Computer equipment of \$166,230 was acquired through capital leases in 2013.