



Inspiring all girls
to be strong,
smart, and bold

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

March 31, 2018 and 2017

GIRLS INCORPORATED

CONTENTS

Page

FINANCIAL STATEMENTS

Independent Auditors' Report	1-2
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7-21

OTHER REPORTS AND SUPPLEMENTARY INFORMATION

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22-23
Schedule of Expenditures of Federal Awards	24-25
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	26-28
Schedule of Findings and Questioned Costs	29-31
Corrective Action Plan	32-33

Independent Auditors' Report

Board of Directors
Girls Incorporated

Report on the Financial Statements

We have audited the accompanying financial statements of Girls Incorporated, which comprise the statements of financial position as of March 31, 2018 and 2017, 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 auditors' 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 auditors consider 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 Girls Incorporated as of March 31, 2018 and 2017, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2018, on our consideration of Girls Incorporated's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Girls Incorporated's internal control over financial reporting and compliance.

Katy, Sapper & Miller, LLP

Indianapolis, Indiana
July 31, 2018

GIRLS INCORPORATED
STATEMENTS OF FINANCIAL POSITION
March 31, 2018 and 2017

ASSETS

	2018	2017
ASSETS		
Cash and equivalents	\$ 3,999,333	\$ 7,761,731
Accrued investment income	8,072	5,736
Dues receivables	33,457	1,701
Grants, contracts and contributions receivables, net	9,781,566	14,677,863
Investments - current	9,698,618	2,646,372
Prepaid expenses and other	241,676	361,577
Note receivable from affiliate	22,222	48,889
Cash and equivalents - endowment	330,248	380,607
Investments - endowment	5,280,275	4,984,804
Property and equipment, net	1,392,816	1,467,236
Funds held by trustees	<u>9,854,207</u>	<u>9,066,291</u>
TOTAL ASSETS	<u>\$ 40,642,490</u>	<u>\$ 41,402,807</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	\$ 1,942,628	\$ 896,930
Scholarships payable	1,073,108	1,006,825
Deferred revenue	239,925	209,209
Accrued pension cost	801,350	964,820
Deferred rent obligation	<u>101,721</u>	<u>90,461</u>
Total Liabilities	<u>4,158,732</u>	<u>3,168,245</u>
NET ASSETS		
Unrestricted:		
Board designated	660,136	645,145
Undesignated	<u>7,119,212</u>	<u>6,217,518</u>
Total Unrestricted	7,779,348	6,862,663
Temporarily restricted	15,216,702	18,672,107
Permanently restricted	<u>13,487,708</u>	<u>12,699,792</u>
Total Net Assets	<u>36,483,758</u>	<u>38,234,562</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 40,642,490</u>	<u>\$ 41,402,807</u>

See accompanying notes.

GIRLS INCORPORATED
STATEMENTS OF ACTIVITIES
Years Ended March 31, 2018 and 2017

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUE, GAINS AND OTHER SUPPORT				
Special events revenue	\$ 1,197,755			\$ 1,197,755
Less: Direct costs of special events	(257,008)			(257,008)
Special events, net	940,747			940,747
Contributions and private grants	3,340,426	\$ 5,169,221		8,509,647
In-kind contributions	451,060			451,060
Government grants and contracts		1,031,287		1,031,287
Program revenue	711,072			711,072
Other income	78,229			78,229
	<u>5,521,534</u>	<u>6,200,508</u>		<u>11,722,042</u>
Net assets released from restrictions	<u>10,558,236</u>	<u>(10,558,236)</u>		
 Total Operating Revenue, Gains and Other Support	 <u>16,079,770</u>	 <u>(4,357,728)</u>		 <u>11,722,042</u>
EXPENSES				
Program Services:				
Affiliate services/growth	5,963,426			5,963,426
Program, research and training	6,136,173			6,136,173
Public education and advocacy	1,468,137			1,468,137
Total Program Services	<u>13,567,736</u>			<u>13,567,736</u>
Supporting Services:				
Management and general	316,928			316,928
Fundraising	1,719,787			1,719,787
Total Supporting Services	<u>2,036,715</u>			<u>2,036,715</u>
Total Expenses	<u>15,604,451</u>			<u>15,604,451</u>
CHANGE IN NET ASSETS BEFORE INVESTMENT RETURN	<u>475,319</u>	<u>(4,357,728)</u>		<u>(3,882,409)</u>
INVESTMENT RETURN				
Net appreciation on investments and funds held by trustees	195,223	347,453	\$ 787,916	1,330,592
Investment income	98,838	554,870		653,708
Total Investment Return	<u>294,061</u>	<u>902,323</u>	<u>787,916</u>	<u>1,984,300</u>
CHANGE IN NET ASSETS BEFORE PENSION CHANGES OTHER THAN NET PERIODIC COSTS	<u>769,380</u>	<u>(3,455,405)</u>	<u>787,916</u>	<u>(1,898,109)</u>
Pension changes other than net periodic costs	<u>147,305</u>			<u>147,305</u>
CHANGE IN NET ASSETS	<u>916,685</u>	<u>(3,455,405)</u>	<u>787,916</u>	<u>(1,750,804)</u>
NET ASSETS				
Beginning of Year	<u>6,862,663</u>	<u>18,672,107</u>	<u>12,699,792</u>	<u>38,234,562</u>
End of Year	<u>\$ 7,779,348</u>	<u>\$ 15,216,702</u>	<u>\$ 13,487,708</u>	<u>\$ 36,483,758</u>

See accompanying notes.

Unrestricted	2017		Total
	Temporarily Restricted	Permanently Restricted	
\$ 1,768,809			\$ 1,768,809
<u>(328,999)</u>			<u>(328,999)</u>
1,439,810			1,439,810
3,052,955	\$ 18,346,951	\$ 1,000	21,400,906
294,373			294,373
	507,744		507,744
677,576			677,576
<u>70,423</u>			<u>70,423</u>
5,535,137	18,854,695	1,000	24,390,832
<u>5,316,816</u>	<u>(5,316,816)</u>		
<u>10,851,953</u>	<u>13,537,879</u>	<u>1,000</u>	<u>24,390,832</u>
2,398,714			2,398,714
5,335,322			5,335,322
<u>1,347,155</u>			<u>1,347,155</u>
<u>9,081,191</u>			<u>9,081,191</u>
286,564			286,564
<u>957,856</u>			<u>957,856</u>
<u>1,244,420</u>			<u>1,244,420</u>
<u>10,325,611</u>			<u>10,325,611</u>
<u>526,342</u>	<u>13,537,879</u>	<u>1,000</u>	<u>14,065,221</u>
168,255	412,335	533,612	1,114,202
<u>76,324</u>	<u>552,636</u>		<u>628,960</u>
<u>244,579</u>	<u>964,971</u>	<u>533,612</u>	<u>1,743,162</u>
770,921	14,502,850	534,612	15,808,383
<u>173,355</u>			<u>173,355</u>
944,276	14,502,850	534,612	15,981,738
<u>5,918,387</u>	<u>4,169,257</u>	<u>12,165,180</u>	<u>22,252,824</u>
<u>\$ 6,862,663</u>	<u>\$ 18,672,107</u>	<u>\$ 12,699,792</u>	<u>\$ 38,234,562</u>

GIRLS INCORPORATED

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended March 31, 2018 and 2017

	<u>Affiliate Services/Growth</u>		<u>Program, Research and Training</u>		<u>Public Education and Advocacy</u>	
	2018	2017	2018	2017	2018	2017
Salaries	\$ 1,212,882	\$ 889,560	\$ 1,415,625	\$ 1,754,603	\$ 569,531	\$ 554,504
Payroll taxes and employee benefits	367,275	276,889	461,456	546,128	172,463	207,082
Consultants and professional fees	79,836	119,578	1,111,722	354,790	247,588	176,775
Supplies	6,635	4,682	19,457	18,123	3,344	4,308
Telephone and computer expense	17,121	6,255	128,774	151,376	5,204	6,869
Postage and shipping expense	6,468	4,591	8,059	9,531	1,189	1,649
Occupancy	58,135	44,496	78,313	117,912	69,571	53,453
Insurance	15,720	9,120	17,077	22,079	5,839	5,896
Equipment rental and maintenance	8,643	3,749	34,784	47,572	2,159	4,149
Travel and meetings expense	314,540	198,663	184,007	186,720	51,177	61,006
Printing and publications expense	33,382	16,517	43,560	43,131	303,791	236,430
Subscriptions	1,638	486	10,227	1,138	13,265	12,444
Membership dues	9,036	16,760	18,802	11,034	2,149	2,431
Scholarships	290,340	204,876	(52)	16,453		
Pass-through grants to affiliates	3,524,183	581,893	2,579,747	2,005,490	11,565	4,452
Depreciation	16,688	14,831	23,571	35,904	8,060	9,587
Miscellaneous	904	5,768	1,044	13,338	1,242	6,120
Direct costs of special events						
TOTAL EXPENSES	<u>\$ 5,963,426</u>	<u>\$ 2,398,714</u>	<u>\$ 6,136,173</u>	<u>\$ 5,335,322</u>	<u>\$ 1,468,137</u>	<u>\$ 1,347,155</u>

See accompanying notes.

Management and General		Fundraising		Total	
2018	2017	2018	2017	2018	2017
\$ 149,444	\$ 136,423	\$ 947,050	\$ 592,199	\$ 4,294,532	\$ 3,927,289
46,342	38,007	286,790	186,836	1,334,326	1,254,942
37,444	39,140	201,685	91,225	1,678,275	781,508
1,560	2,437	4,725	4,312	35,721	33,862
757	663	25,415	3,147	177,271	168,310
939	1,058	10,619	11,242	27,274	28,071
36,422	23,925	44,070	36,202	286,511	275,988
8,557	8,303	10,353	7,460	57,546	52,858
2,834	3,141	3,429	2,822	51,849	61,433
9,230	7,981	199,714	218,673	758,668	673,043
6,856	3,482	94,433	105,654	482,022	405,214
1,102	356	5,614	1,651	31,846	16,075
2,857	3,142	6,956	6,893	39,800	40,260
238		120,583		290,288	221,329
				6,236,316	2,591,835
11,811	13,501	14,290	12,131	74,420	85,954
535	5,005	1,069	6,408	4,794	36,639
		(257,008)	(328,999)	(257,008)	(328,999)
\$ 316,928	\$ 286,564	\$ 1,719,787	\$ 957,856	\$ 15,604,451	\$ 10,325,611

GIRLS INCORPORATED
STATEMENTS OF CASH FLOWS
Years Ended March 31, 2018 and 2017

	2018	2017
OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (1,750,804)	\$ 15,981,738
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	74,420	85,954
Loss on disposal of equipment		3,000
Bad debt expense		28,540
Net appreciation of investments	(542,676)	(580,589)
Net appreciation of funds held by trustees	(787,916)	(533,612)
(Increase) decrease in certain assets:		
Accrued investment income	(2,336)	(327)
Dues receivables	(31,756)	3,006
Grants, contracts and contributions receivables	4,896,297	(12,745,789)
Prepaid expenses and other	119,901	(116,494)
Note receivable from affiliate	26,667	26,667
Funds held by trustees		33
Increase (decrease) in certain liabilities:		
Accounts payable and accrued expenses	1,045,698	336,469
Scholarships payable	66,283	(118,290)
Deferred revenue	30,716	(17,695)
Accrued pension cost	(163,470)	(166,329)
Deferred rent obligation	11,260	9,707
Contributions restricted for endowment		(1,000)
Net Cash Provided by Operating Activities	<u>2,992,284</u>	<u>2,194,989</u>
INVESTING ACTIVITIES		
Purchases of investments	(8,844,375)	(1,889,863)
Proceeds from sales of investments	2,039,334	1,993,163
Decrease in cash and equivalents - endowment	50,359	17,917
Net Cash Provided (Used) by Investing Activities	<u>(6,754,682)</u>	<u>121,217</u>
FINANCING ACTIVITIES		
Collections of contributions restricted for endowment		1,000
Net Cash Provided by Financing Activities	<u>-</u>	<u>1,000</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(3,762,398)	2,317,206
CASH AND EQUIVALENTS		
Beginning of Year	<u>7,761,731</u>	<u>5,444,525</u>
End of Year	<u>\$ 3,999,333</u>	<u>\$ 7,761,731</u>

See accompanying notes.

GIRLS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

March 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: Girls Incorporated, which is incorporated in the Commonwealth of Massachusetts, inspires all girls to be strong, smart, and bold through life-changing programs and experiences that help girls navigate gender, economic, and social barriers. Research-based curricula, delivered by trained, mentoring professionals in a positive all-girl environment equip girls to achieve academically; lead healthy and physically active lives; manage money; navigate media messages; and discover an interest in science, technology, engineering, and math. The network of local Girls Inc. nonprofit organizations serves 156,000 girls ages 6 to 18 annually across the United States and Canada. The accompanying financial statements of Girls Incorporated do not include the financial position and operating results of affiliates, each of which has its own independent board of directors and maintains separate accounts.

The program services of Girls Incorporated are as follows:

- **Affiliate Services/Growth** reflects delivery of program and management services and technical assistance to affiliates, replication of programs at affiliates, national scholarships and awards, development of delivery systems in major urban areas and the convening of regional meetings.
- **Program, Research and Training** reflects program development, field testing, evaluation, research, training, and technical assistance for Girls Incorporated programs. Programs focus on science, math and technology, health and sexuality, economic and financial literacy, sports skills, leadership and advocacy and media literacy.
- **Public Education and Advocacy** reflects public education, advocacy, representation in Washington, D.C., communications with internal and external audiences and strategic alliances entered into for visibility purposes.

Basis of Accounting: Girls Incorporated prepares its financial statements using the accrual basis of accounting. Girls Incorporated adheres to accounting principles generally accepted in the United States of America (GAAP).

Estimates: The preparation of financial statements in accordance 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 disclosures of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Net Asset Classifications: Girls Incorporated's net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, its net assets and changes therein are classified and reported as follows:

- **Unrestricted Net Assets** include general and board designated net assets that are not subject to donor-imposed stipulations.
- **Temporarily Restricted Net Assets** are subject to donor-imposed stipulations that will be met either by actions of Girls Incorporated or the passage of time.
- **Permanently Restricted Net Assets** are subject to donor-imposed stipulations that net assets be maintained permanently by Girls Incorporated and to use all or part of the income earned from the related investments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities, other than funds held by trustees, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law. Gains and losses on funds held by trustees, which consist of perpetual trust assets, are reported as increases or decreases in permanently restricted net assets. Expiration or fulfillment of temporary restrictions on net assets are reported as net assets released from restrictions.

Cash and Equivalents: Girls Incorporated considers money market fund shares and all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Girls Incorporated maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limits. Girls Incorporated has not experienced any losses from its bank accounts.

Membership Dues: Membership dues, which are based on a percentage of the member affiliates' annual expenditures, are recognized as revenue when earned and are included in program related revenue. Deferred revenue includes membership dues received in advance of the period to which they relate. If necessary, the carrying amount of membership dues receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management determined that no allowance was necessary as of March 31, 2018 and 2017.

Promises to Give: Unconditional promises to give are recorded at net realizable value. If material, contributions to be received after one year are recorded at their present value or their estimated future cash flows, with the change in the balance of unamortized discount reflected as an adjustment to contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Government grants and contracts are recorded as temporarily restricted revenue, and as the expenditures are incurred, net assets are released from restrictions. Historically, Girls Incorporated has not experienced significant bad debt losses. Girls Incorporated determines its allowance for doubtful grants, contracts and contributions on its historical loss experience considering the age of the receivables. Management determined that no allowance was necessary as of March 31, 2018 and 2017.

Investment Valuation and Income Recognition: Investments are stated at fair value. 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. See Note 2 for discussion of fair value measurements.

Interest income is recorded on the accrual basis, and dividends are recorded on the ex-dividend date. Purchases and sales of investments are recorded on the trade date. Gains and losses on the sale of investments are determined using the specific-identification method. Realized and unrealized gains and losses on investments are included in the statements of activities.

Property and Equipment: Expenditures for property and equipment are reflected at cost, less accumulated depreciation. Depreciation of property and equipment is provided on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the remaining life of the lease or the estimated useful life of the asset, whichever is shorter. The estimated useful lives of other assets are as follows:

Building	10-40 years
Furnishings and equipment	3-10 years
Leasehold and building improvements	7-15 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Girls Incorporated's property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amount to future net undiscounted cash flows expected to be generated by the related asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair market value of the assets. To date, no adjustments to the carrying amount of property and equipment have been required.

In-Kind Contributions: Contributed goods and services are recorded at their fair value on the date of receipt. Donated supplies and goods for program purposes for the years ended March 31, 2017 were \$7,801. There were no such donated supplies and goods for program purposes in 2018. These donations are included as in-kind contributions and public education and advocacy expenses. For the years ended March 31, 2018 and 2017, donated advertising services of \$292,060 and \$238,649, respectively, are included in in-kind contributions and in public education and advocacy expenses. The fair value of donated public service announcements is estimated on the basis of economic benefits received by Girls Incorporated. In addition to providing economic benefits to Girls Incorporated, donated public service announcements provide benefits to all of the member affiliates. For the years ended March 31, 2018 and 2017, donated legal, consulting and IT services of \$159,000 and \$47,923, respectively, are included in in-kind contributions and in management and general expenses.

Expense Allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Directly identifiable expenses are charged to the specific programs and supporting services benefited. Expenses related to more than one function are charged to programs and supporting services 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 Girls Incorporated.

Special Events: The direct costs of special events include the cost of labor and equipment rental, as well as expenses for the benefit of the donor. The Internal Revenue Service considers meals, beverages and gift bags as examples of expenses for the benefit of the donor.

Income Taxes: Girls Incorporated is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision or liability for income taxes has been included in the financial statements. In addition, Girls Incorporated has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the years ended March 31, 2018 and 2017.

Girls Incorporated files U.S. federal and states of New York and Indiana information tax returns. Girls Incorporated is no longer subject to U.S. federal and state income tax examinations by tax authorities for the fiscal years before March 31, 2015.

Subsequent Events: Management has evaluated the financial statements for potential recognition and disclosure of subsequent events occurring through July 31, 2018, the date the financial statements were available to be issued.

NOTE 2 - FAIR VALUE MEASUREMENTS

Girls Incorporated has categorized its assets and liabilities that are measured at fair value into a three-level fair value hierarchy. The hierarchy 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) and the lowest priority to unobservable inputs (Level 3). 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.

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Girls Incorporated has the ability to access.

Level 2 – Inputs to the valuation methodology may 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/or 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. In situations where there is little or no market activity for the asset or liability, Girls Incorporated makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk. Also included in Level 3 are assets measured using a practical expedient that can never be redeemed at the practical expedient.

Following is a description of the valuation methodologies used by Girls Incorporated for assets and liabilities that are measured at fair value on a recurring basis. There have been no changes in the methodologies used at March 31, 2018 and 2017.

Mutual Fund Shares and Money Market Fund Shares: Valued at the daily closing price as reported by the funds. These funds are required to publish their daily net asset value (NAV) and transact at that price.

Common Stocks and Government Agency Bonds: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate Bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing the value on yields currently available on comparable securities of issues with similar credit ratings.

Beneficial Interest in Perpetual Trusts: Valued using the fair value of the assets in the trust, since no facts and circumstances indicate that the fair value of the assets in the trusts differs from the fair value of the beneficial interest.

Accrued Pension Cost: Valued based on the difference between the fair value of the plan assets and the projected benefit obligation. The fair value of plan assets is based on the unit price reported by the sponsoring insurance company. The benefit obligation is projected using the unit credit actuarial valuation method.

For those assets and liabilities measured at fair value, management determines the fair value measurement policies and procedures in consultation with Girls Incorporated's Fiscal Oversight Committee. Those policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third-party information.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Girls Incorporated's management 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 assets and liabilities could result in a different fair value measurement at the reporting date.

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a summary, by major nature and risks class within each level of the fair value hierarchy, of Girls Incorporated's assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2018 and 2017:

2018	Level 1	Level 2	Level 3	Total
Assets				
Cash Equivalents				
Money Market Fund Shares	\$ 350,930			\$ 350,930
Investments:				
Common Stocks:				
Financials	644,186			644,186
Healthcare	1,101,871			1,101,871
Technology	1,159,083			1,159,083
Consumer goods	567,243			567,243
Consumer discretionary	688,208			688,208
Industrial goods	883,648			883,648
Other	1,638,221			1,638,221
Corporate Bonds		\$585,096		585,096
Government Agency Bonds	7,711,337			7,711,337
Funds Held By Trustees:				
Beneficial interest in perpetual trusts			\$9,854,207	9,854,207
	<u>\$14,744,727</u>	<u>\$585,096</u>	<u>\$9,854,207</u>	<u>\$25,184,030</u>
Liabilities				
Accrued pension cost			\$ 801,350	\$ 801,350
			<u>\$ 801,350</u>	<u>\$ 801,350</u>
2017				
Assets				
Cash Equivalents - Endowment:				
Money Market Fund Shares	\$ 380,607			\$ 380,607
Investments:				
Common Stocks:				
Financials	545,412			545,412
Healthcare	1,005,851			1,005,851
Technology	1,015,811			1,015,811
Consumer goods	513,688			513,688
Consumer discretionary	696,491			696,491
Industrial goods	936,111			936,111
Other	1,671,174			1,671,174
Corporate Bonds		\$481,093		481,093
Government Agency Bonds	765,545			765,545
Funds Held By Trustees:				
Beneficial interest in perpetual trusts			\$9,066,291	9,066,291
	<u>\$7,530,690</u>	<u>\$481,093</u>	<u>\$9,066,291</u>	<u>\$17,078,074</u>

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

2017	Level 1	Level 2	Level 3	Total
Liabilities				
Accrued pension cost			<u>\$964,820</u>	<u>\$964,820</u>
Total Liabilities at Fair Value			<u>\$964,820</u>	<u>\$964,820</u>

At March 31, 2018 and 2017, Girls Incorporated had no other assets or liabilities that are measured at fair value on a recurring basis.

Activity during the years ended March 31, 2018 and 2017 related to assets measured at fair value on a recurring basis using a Level 3 valuation methodologies was as follows:

	Beneficial Interest In Perpetual Trusts
Value at March 31, 2016	\$8,532,712
Disposals	(33)
Unrealized gain	<u>533,612</u>
Value at March 31, 2017	9,066,291
Unrealized gain	<u>787,916</u>
Value at March 31, 2018	<u>\$9,854,207</u>

There are no significant unobservable inputs used in the fair value measurements for the beneficial interest in perpetual trusts, considering the principal valuation technique is the fair value of each trust's assets.

Changes in the fair value of the Level 3 accrued pension cost for the years ended March 31, 2018 and 2017 and additional information about the valuation techniques and inputs are included in the details of the change in pension benefit obligation and the change in plan assets in Note 7.

NOTE 3 - INVESTMENTS

Girls Incorporated's investments consisted of the following as of March 31, 2018 and 2017:

	2018	2017
Common stocks	\$ 6,682,460	\$6,384,537
Corporate bonds	585,096	481,093
Government agency bonds	<u>7,711,337</u>	<u>765,545</u>
	<u>\$14,978,893</u>	<u>\$7,631,176</u>

Investments are included in the statements of financial position as of March 31, 2018 and 2017 as follows:

	2018	2017
Investments - current	\$ 9,698,618	\$2,646,372
Investments - endowment	<u>5,280,275</u>	<u>4,984,804</u>
	<u>\$14,978,893</u>	<u>\$7,631,176</u>

NOTE 3 - INVESTMENTS (CONTINUED)

Girls Incorporated's investment income consisted of the following for the years ended March 31, 2018 and 2017:

	2018	2017
Distributions from perpetual trusts	\$444,481	\$446,799
Interest and dividends	<u>209,227</u>	<u>182,161</u>
	<u>\$653,708</u>	<u>\$628,960</u>

Girls Incorporated's investment securities are exposed to various risks, such as interest rate, market and credit 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 and that such changes could materially affect the amounts reported in the financial statements.

NOTE 4 - GRANTS, CONTRACTS AND CONTRIBUTIONS RECEIVABLES

Grants, contracts and contributions receivables were as follows at March 31, 2018 and 2017:

	2018	2017
Unrestricted	<u>\$1,046,445</u>	<u>\$ 495,398</u>
Temporarily Restricted:		
Restricted for specific purposes	1,712,652	950,344
Restricted for Growth Capital Campaign	<u>7,022,469</u>	<u>13,232,121</u>
Total Temporarily Restricted	<u>8,735,121</u>	<u>14,182,465</u>
 Total Grants, Contracts, and Contributions Receivables, Net	 <u>\$9,781,566</u>	 <u>\$14,677,863</u>
 Expected to be collected in:		
Less than one year	\$7,811,497	\$ 6,801,398
One to five years	<u>2,175,474</u>	<u>8,058,241</u>
	9,986,971	14,859,639
Unamortized discounts	<u>(205,405)</u>	<u>(181,776)</u>
 Total Grants, Contracts, and Contributions Receivables, Net	 <u>\$9,781,566</u>	 <u>\$14,677,863</u>

Grants, contracts and contributions receivables are discounted at a rate of 2.48% and 1.72% at March 31, 2018 and 2017, respectively.

Girls Incorporated is conducting a Growth Capital Campaign (GCC) to significantly grow the number of girls served. Uses of the GCC will include one-time targeted seed grants to local affiliates; investment in a learning management system to enable the national organization to bring more resources to their affiliate staff, leaders and volunteers; and, a third party evaluation to measure the difference Girls Incorporated makes in the lives of girls.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of March 31, 2018 and 2017:

	2018	2017
Land	\$ 209,205	\$ 209,205
Building	2,431,807	2,431,807
Furnishings and equipment	507,010	507,010
Leasehold and building improvements	<u>233,631</u>	<u>233,631</u>
Total Cost	3,381,653	3,381,653
Less: Accumulated depreciation	<u>(1,988,837)</u>	<u>(1,914,417)</u>
Total Property and Equipment, net	<u>\$ 1,392,816</u>	<u>\$ 1,467,236</u>

NOTE 6 - FUNDS HELD BY TRUSTEES

Girls Incorporated is a beneficiary of certain irrevocable perpetual trusts, which are managed by third party trustees. Girls Incorporated is entitled to receive all the annual net income earned from the assets of the trusts. The fair value of the future cash receipts from these trusts have been reflected in funds held by trustees in the permanently restricted net asset class. See Note 2 for discussion of fair value measurements. The change in the fair value of the funds held by trustees is reflected as net appreciation of funds held by trustees in the permanently restricted net asset class. The funds appreciated by \$787,916 and \$533,612 during the years ended March 31, 2018 and 2017, respectively. Income distributions from such trusts amounted to \$444,481 and \$446,799 for the years ended March 31, 2018 and 2017, respectively, and are reflected as investment income in the accompanying statements of activities.

NOTE 7 - EMPLOYEE BENEFITS

Defined Benefit Pension Plan

Girls Incorporated maintains a qualified noncontributory defined benefit pension plan, which was frozen effective August 31, 2006. Thus, Plan participants will not accrue benefits after August 31, 2006, and no new employees may enter the Plan. Girls Incorporated's funding policy is to make the minimum annual contribution required by applicable regulations.

The following table sets forth the Plan's funded status and amounts recognized in Girls Incorporated's financial statements as of March 31, 2018 and 2017 and for the years then ended. The date used to determine the pension measurements for the Plan's assets and benefit obligations was March 31, 2018 and 2017.

	2018	2017
Obligation and Funded Status		
Plan assets	\$ 3,661,036	\$ 3,492,793
Accumulated benefit obligation	<u>(4,462,386)</u>	<u>(4,457,613)</u>
Funded status	<u>\$ (801,350)</u>	<u>\$ (964,820)</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 4,457,613	\$ 4,397,282
Interest cost	214,333	206,404
Benefits paid	(337,935)	(133,474)
Actuarial net gain (loss)	<u>128,375</u>	<u>(12,599)</u>
Benefit obligation at end of year	<u>\$ 4,462,386</u>	<u>\$ 4,457,613</u>

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

	2018	2017
Amount Recognized in the Statements of Financial Position as a Liability	<u>\$(801,350)</u>	<u>\$(964,820)</u>
	2018	2017
Net Periodic Pension Cost		
Components of Net Periodic Pension Cost:		
Interest cost	\$ 214,333	\$ 206,404
Expected return on assets	(196,778)	(183,308)
Amortization of loss	<u>62,930</u>	<u>80,580</u>
Net Periodic Pension Cost	<u>\$ 80,485</u>	<u>\$ 103,676</u>

Other changes in the Plan's assets and benefit obligation previously recognized in changes in unrestricted net assets, not yet recognized as periodic pension cost:

	2018	2017
Net loss	<u>\$952,994</u>	<u>\$1,100,299</u>

The estimated net loss that will be amortized from changes in unrestricted net assets into net periodic benefit cost in fiscal year 2019 is \$57,048.

The following assumptions were used in accounting for the Plan:

Weighted-average assumptions used to determine pension benefit obligation at March 31, 2018 and 2017:

	2018	2017
Discount rate	4.920%	4.820%

Weighted-average assumptions used to determine net periodic pension cost for the years ended March 31, 2018 and 2017:

Discount rate	4.920%	4.940%
Expected return on Plan assets	5.750%	5.750%

The expected long-term rate of return on Plan assets is determined by those assets' historical long-term investment performance, current asset allocation, and estimates of long-term returns by asset class.

The Plan's investment policy is to seek primarily capital appreciation and, to a lesser extent, income for reinvestment or cash flow purposes, with the preservation of capital also being an important investment objective. Equity securities consist of investments in common stock shares and have a target asset allocation of 40-80% of total Plan assets. Debt securities (U.S. Government securities and corporate bonds) have a target asset allocation of 20-60%. Investments are purchased with the intent to hold the asset for the long-term. The Plan does not participate in hedging transactions.

Following is a description of the valuation methodology used by the Plan for investment assets measured at fair value on a recurring basis. There have been no changes in the methodology used at March 31, 2018 and 2017.

Pooled Separate Accounts: Valued at the unit price reported by the sponsoring insurance company. Generally, the unit price is based on quoted market prices of the underlying assets owned, less any accrual of fees and expenses borne by the account, and divided by the number of outstanding units.

NOTE 7 - EMPLOYEE BENEFITS (CONTINUED)

Following, is a summary, by major nature and risks class within each level of the fair value hierarchy (see Note 2), of the Plan's investment assets that are measured at fair value on a recurring basis as of March 31, 2018 and 2017:

2018	Level 2	Total
Pooled Separate Accounts:		
Equities of socially aware companies	<u>\$3,661,036</u>	<u>\$3,661,036</u>
Total Plan Investments at Fair Value	<u>\$3,661,036</u>	<u>\$3,661,036</u>
2017		
Pooled Separate Accounts:		
Equities of socially aware companies	<u>\$3,492,793</u>	<u>\$3,492,793</u>
Total Plan Investments at Fair Value	<u>\$3,492,793</u>	<u>\$3,492,793</u>

Girls Incorporated expects to make contributions to the Plan of approximately \$96,650 in fiscal year 2019. No Plan assets are expected to be returned to Girls Incorporated during fiscal year 2019.

The following benefits are expected to be paid by the Plan in each of the next five years and the five years thereafter:

Year Ended March 31,	Amount
2019	\$ 243,769
2020	242,585
2021	249,761
2022	250,348
2023	278,730
2024-2028	1,411,235

Defined Contribution 401(k) Plan

Girls Incorporated also sponsors a defined contribution 401(k) retirement savings plan for all of its qualified employees. All plan participants are permitted to make salary reduction contributions to the Plan. Girls Incorporated may make a discretionary contribution to the Plan, determined annually based on eligible earnings of participants. Participants become fully vested immediately upon entry into the Plan. Girls Incorporated made contributions of \$143,238 and \$124,744 to the 401(k) Plan during the years ended March 31, 2018 and 2017, respectively.

NOTE 8 - NET ASSETS

Unrestricted Net Assets:

Unrestricted net assets consisted of the following as of March 31, 2018 and 2017:

	2018	2017
Designated by the Board for endowment purposes	\$ 660,136	\$ 645,145
Undesignated	<u>7,118,211</u>	<u>6,217,518</u>
Total Unrestricted Net Assets	<u>\$7,778,347</u>	<u>\$6,862,663</u>

NOTE 8 - NET ASSETS (CONTINUED)***Temporarily Restricted Net Assets:***

Temporarily restricted net assets consisted of the following as of March 31, 2018 and 2017:

	2018	2017
Program Restricted:		
Affiliate Growth Investments	\$11,581,482	\$15,036,782
STEM Programming (science, technology, engineering, math)	453,967	454,651
Economic Literacy Programming	320,347	12,900
Health & Self Esteem Programming	428,664	645,460
Reading Literacy Programming		105,656
Reaching More Girls Through Mentoring and Affiliates		368,306
College Scholarships for Girls	530,875	418,373
Outcomes Measurement and Management Information System	292,243	
Other	205,654	543,180
Time Restricted:		
Endowment appreciation	<u>1,403,470</u>	<u>1,086,799</u>
Total Temporarily Restricted Net Assets	<u>\$15,216,702</u>	<u>\$18,672,107</u>

For the years ended March 31, 2018 and 2017, net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors were as follows:

	2018	2017
Affiliate Growth Investments	\$ 4,708,175	\$ 357,519
STEM Programming (science, technology, engineering, math)	1,828,185	1,034,099
Economic Literacy Programming	349,579	555,349
Health & Self Esteem Programming	986,796	564,914
Reading Literacy Programming	231,171	325,511
Reaching More Girls Through Mentoring and Affiliates	1,399,594	1,125,957
College Scholarships for Girls	330,874	281,363
Outcomes Measurement and Management Information System	223,921	190,227
Other	292,813	447,121
Tribute Funds	<u>207,128</u>	<u>434,756</u>
Total Net Assets Released from Restrictions	<u>\$10,558,236</u>	<u>\$5,316,816</u>

Permanently Restricted Net Assets:

Permanently restricted net assets consist of beneficial interests in perpetual trusts, as well as endowment funds held and managed by Girls Incorporated. See Note 9.

NOTE 9 - ENDOWMENT FUNDS

Girls Incorporated's endowment consists of ten individual funds established for various purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. Donor-restricted funds include perpetual trusts in which Girls Incorporated is named a beneficiary. As required by 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. Girls Incorporated 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 Girls Incorporated in a manner consistent with the standard of prudence prescribed by UPMIFA. Funds designated by the Board of Directors to function as endowments are classified as unrestricted.

Interpretation of Relevant Law: The Board of Directors has interpreted the Massachusetts-enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as permitting Girls Incorporated to appropriate for expenditure or accumulate so much of a donor-restricted endowment fund that Girls Incorporated determines is prudent for the uses, purposes, and duration of the endowment fund, unless there are explicit donor stipulations to the contrary.

In accordance with UPMIFA, Girls Incorporated considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the various funds
- The purposes of the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Girls Incorporated
- Girls Incorporated's investment policies

Investment Return Objectives, Risk Parameters and Strategies: Girls Incorporated has adopted investment and spending policies, approved by its Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Endowment assets are invested in a well-diversified asset mix, with a target asset allocation of 70% to 90% into equity and 10% to 30% into fixed income securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions according to the spending policy. Other alternative investment classes may not exceed 15% of the asset mix. The remainder of the assets not invested as noted above shall be cash reserves, which are not to exceed 10% of the assets market value, unless approved by the Investment Subcommittee. Investment risk is measured in terms of the total endowment fund and managed to not expose the endowment to unacceptable levels of risk. Girls Incorporated expects its endowment assets, over time, to produce a total return in excess of that generated by relevant benchmarks. Actual returns in any given year may vary from this amount.

Spending Policy: Girls Incorporated has a policy of appropriating for distribution each year any earnings on the endowment fund in the amount of not more than 4% before fees of the three-year moving average market value of the endowment fund with a maximum increase of 6% per year over the prior year's spending amount. This approach serves to protect against volatility in the amount of gifts received and assists in maintaining intergenerational equity. In establishing this policy, Girls Incorporated considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. This is consistent with Girls Incorporated objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts.

NOTE 9 - ENDOWMENT FUNDS (CONTINUED)

Endowment net asset compositions by type of fund as of March 31, 2018 and 2017, were as follows:

2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Assets				
Board-designated endowment fund	\$666,549			\$ 666,549
Donor-restricted endowment funds	<u> </u>	<u>\$1,310,473</u>	<u>\$13,487,708</u>	<u>14,798,181</u>
Total Endowment	<u>\$666,549</u>	<u>\$1,310,473</u>	<u>\$13,487,708</u>	<u>\$15,464,730</u>
2017				
Assets				
Board-designated endowment fund	\$645,145			\$ 645,145
Donor-restricted endowment funds	<u> </u>	<u>\$1,086,799</u>	<u>\$12,699,792</u>	<u>13,786,591</u>
Total Endowment	<u>\$645,145</u>	<u>\$1,086,799</u>	<u>\$12,699,792</u>	<u>\$14,431,736</u>

Changes in net endowment assets for the years ended March 31, 2018 and 2017 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets at March 31, 2016	\$620,843	\$ 752,311	\$12,165,180	\$13,538,334
Investment Return:				
Investment income	12,276	552,636		564,912
Net appreciation	33,832	412,335		446,167
Investment fees	(4,683)	(44,854)		(49,537)
Net unrealized gain on perpetual trusts			<u>533,612</u>	<u>533,612</u>
Total Investment Return	<u>41,425</u>	<u>920,117</u>	<u>533,612</u>	<u>1,495,154</u>
New gifts			1,000	1,000
Amounts appropriated for expenditure	<u>(17,123)</u>	<u>(585,629)</u>		<u>(602,752)</u>
Endowment net assets at March 31, 2017	645,145	1,086,799	12,699,792	14,431,736
Investment Return:				
Investment income	13,631	554,870		568,501
Net appreciation	40,328	347,453		387,781
Investment fees	(4,833)	(48,145)		(52,978)
Net unrealized gain on perpetual trusts			<u>787,916</u>	<u>787,916</u>
Total Investment Return	<u>49,126</u>	<u>854,178</u>	<u>787,916</u>	<u>1,691,200</u>
Amounts appropriated for expenditure	<u>(27,722)</u>	<u>(630,504)</u>		<u>(658,226)</u>
Endowment net assets at March 31, 2018	<u>\$666,549</u>	<u>\$1,310,473</u>	<u>\$13,487,708</u>	<u>\$15,464,730</u>

NOTE 9 - ENDOWMENT FUNDS (CONTINUED)

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 or UPMIFA requires Girls Incorporated to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies noted for the years ended March 31, 2018 and 2017.

NOTE 10 - LEASES

Girls Incorporated leases office space at two locations, New York, New York and Washington, D.C. All of the leases are classified as operating leases and all are subject to the customary escalation clauses for rent, real estate taxes and building operating expenses. Rental expense each year under the leases is based on the total lease commitment, recognized on a straight-line basis over the term of the lease. A deferred rent obligation has been established for the cumulative difference between rent expense recognized to date and the amounts paid under the leases. Girls Incorporated also has several equipment operating leases.

At March 31, 2018, the future minimum rental payments required by all long-term noncancellable operating leases are as follows:

Payable in Year Ended March 31,	Rental Payments
2019	\$ 54,625
2020	63,834
2021	61,145
2022	<u>14,793</u>
	<u>\$194,397</u>

Total rent expense was \$218,695 and \$215,607 for the years ended March 31, 2018 and 2017, respectively.

Girls Incorporated subleases office space at the New York, New York location to an affiliate under an agreement that may be canceled by either party at any time. Total sublease income was \$48,252 for the years ended March 31, 2018 and 2017.

Girls Incorporated is leasing office space within the National Resource Center in Indianapolis, Indiana to an unrelated party through June 2019. Total lease income was \$10,236 for the years ended March 31, 2018 and 2017, respectively. Future minimum lease payments to be received total \$12,795: \$10,236 in the year ending March 31, 2019, and \$2,559 in the year ending March 31, 2020.

Girls Incorporated is leasing office space at the Washington, D.C. location to an unrelated party through January 2019. Total lease income was \$9,701 for the year ended March 31, 2018. Future minimum lease payments to be received total \$48,507, all in the year ending March 31, 2019.

NOTE 11 - BANK LINE OF CREDIT

Girls Incorporated has a \$500,000 line of credit with a bank that expires on August 26, 2018. As of March 31, 2018 and 2017, there were no borrowings outstanding on the line of credit. The interest rate on any borrowings is equal to 0.5% less than the Bank's prime lending rate (4.25% at March 31, 2018). The line of credit is collateralized with Girls Incorporated's investment accounts.

NOTE 12 - RELATED PARTY TRANSACTIONS

Girls Incorporated has affiliates that serve as local chapters of Girls Incorporated. Girls Incorporated has no ownership or voting interests in these local chapters. However, affiliation agreements between the local chapters and Girls Incorporated give Girls Incorporated control over how the chapters carry out certain activities and require the payment of affiliate dues to Girls Incorporated. Girls Incorporated recognized dues revenue from affiliates of \$570,752 and \$566,739 for the years ended March 31, 2018 and 2017, respectively, which is included in program revenue. Girls Incorporated had dues receivable from affiliates of \$33,457 and \$1,701 at March 31, 2018 and 2017, respectively. Girls Incorporated provided funding to affiliates of \$6,236,316 and \$2,591,835 for the years ended March 31, 2018 and 2017, respectively. Girls Incorporated had accounts payable to affiliates of \$1,200,497 and \$425,309 at March 31, 2018 and 2017, respectively. Girls Incorporated had no prepaid grants to affiliates at March 31, 2018, and had prepaid grants to affiliates of \$132,694 at March 31, 2017. Girls Incorporated also subleases office space to an affiliate. See Note 10.

In August 2014, Girls Incorporated entered into a loan agreement with an affiliate. The note receivable had a balance of \$22,222 and \$48,889 at March 31, 2018 and 2017, respectively. The purpose of the note was to provide support to hire an executive director.

Girls Incorporated recognized contributions from members of its Board of Directors of \$711,032 and \$2,551,495 for the years ended March 31, 2018 and 2017, respectively. Girls Incorporated recognized in-kind contributions from members of its Board of Directors of \$27,923 for the year ended March 31, 2017. No such contributions were recognized in 2018. Girls Incorporated had contributions receivable, including pledges receivable related to the Growth Capital Campaign, from members of its Board of Directors of \$1,270,000 and \$1,755,150 for the years ended March 31, 2018 and 2017, respectively.

OTHER REPORTS AND SUPPLEMENTARY INFORMATION

*Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards*

Board of Directors
Girls Incorporated

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Girls Incorporated (a nonprofit organization), which comprise the statement of financial position as of March 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 31, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Girls Incorporated's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Girls Incorporated's internal control. Accordingly, we do not express an opinion on the effectiveness of the Girls Incorporated's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Girls Incorporated's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
July 31, 2018

GIRLS INCORPORATED

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2018**

Federal Grantor	Federal CFDA Number	Federal Grant Number	Federal Expenditures	Expenditures to Subrecipients
U.S. DEPARTMENT OF JUSTICE				
Juvenile Mentoring Program	16.726	2016-JU-FX-0016	\$ 900,349	\$ 650,819
		2017-JU-FX-0013	<u>130,938</u>	<u>97,241</u>
			<u>1,031,287</u>	<u>748,060</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,031,287</u>	<u>\$ 748,060</u>

See accompanying notes to schedule of expenditures of federal awards.

GIRLS INCORPORATED

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended March 31, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Girls Incorporated for the year ended March 31, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Girls Incorporated, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Girls Incorporated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through Subrecipients: The amount passed-through to subrecipients represents the actual expenditures incurred by subrecipients and reimbursable in the year ended March 31, 2018.

NOTE 3 - INDIRECT COST RATE

Girls Incorporated has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

*Independent Auditors' Report on
Compliance for Each Major Federal Program and
on Internal Control over Compliance
Required by Uniform Guidance*

Board of Directors
Girls Incorporated

Report on Compliance for Each Major Federal Program

We have audited Girls Incorporated's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Girls Incorporated's major federal programs for the year ended March 31, 2018. Girls Incorporated's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Girls Incorporated's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Girls Incorporated's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Girls Incorporated's compliance.

Opinion on Each Major Federal Program

In our opinion, Girls Incorporated complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

Girls Incorporated's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Girls Incorporated's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Girls Incorporated is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Girls Incorporated's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Girls Incorporated's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002, that we consider to be significant deficiencies.

Girls Incorporated's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Girls Incorporated's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
July 31, 2018

GIRLS INCORPORATED

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2018**

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes no

Identification of major programs:

CFDA Number	Agency	Title
16.726	Department of Justice	Juvenile Mentoring Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

FINANCIAL STATEMENT AUDIT FINDINGS

None

GIRLS INCORPORATED

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) Year Ended March 31, 2018

FEDERAL AWARDS PROGRAM AUDIT FINDINGS AND QUESTIONED COSTS

2018-001 Significant Deficiency and Noncompliance – Subrecipient Monitoring – Juvenile Mentoring Program – CFDA #16.726

Criteria: Guidance for pass-through agencies as it pertains to subrecipient monitoring is outlined at 2 CFR 200.331. This guidance requires that grant agreements include certain identifying elements (e.g. DUNS, identification of the federal awarding agency), a formal risk assessment process be established “for the purposes of determining the appropriate subrecipient monitoring”, and monitoring activities be “followed-up” to ensure “that the subrecipient takes timely and appropriate action on all deficiencies.”

Condition and Context: We noted that all of the grant agreements requested did not include the DUNS number as required by 2 CFR 200.331. Furthermore, the federal awarding agency was misidentified as Girls Incorporated. The federal awarding agency should have been identified as the Department of Justice. We also noted that a formal risk assessment process has not been established for the purposes of determining the appropriate subrecipient monitoring.

Cause and Effect: Girls Incorporated felt that the DUNS was optional due to the “if available” language in 2 CFR 200.331. Girls Incorporated also felt that, since they were providing the funds to the affiliates, they should be identified as the de facto federal awarding agency, not the Department of Justice. Girls Incorporated was unaware that there was a requirement to perform a formal risk assessment for subrecipient monitoring and, therefore, one was not performed.

Recommendation: We recommend that the Girls Incorporated review 2 CFR 200.331 to ensure that all requirements for subrecipient monitoring are implemented. This includes:

- a. Updating the award agreements to adhere to the requirements as outlined at 200.331 (a).
- b. Creating and documenting a formal risk assessment process that adheres to the requirements at 2 CFR 200.331 (b) and determines the Girls Incorporated’s monitoring activities.

Views of Responsible Officials and Planned Corrective Actions: Girls Incorporated agrees with the finding, and in fiscal year 2019 the recommendations will be implemented.

2018-002 Significant Deficiency and Noncompliance – Activities Allowed and Unallowed and Allowable Costs/Cost Principles – Juvenile Mentoring Program – CFDA #16.726

Criteria: In accordance with 2 CFR 200.403(g), all costs must be “adequately documented” to be considered allowable, a requirement which includes maintaining a copy of the original receipt.

Condition and Context: During testing, it was noted that 2 of the 60 expenses selected did not have adequate documentation. The expenses related to travel totaling \$32. Our sample was not a statistically valid sample.

Cause and Effect: If costs are not “adequately documented”, allowability cannot be determined. Consequently, the costs relating to the receipts are unallowable. The presence of unallowable costs can result in funding begin suspended or revoked.

GIRLS INCORPORATED

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended March 31, 2018**

FEDERAL AWARDS PROGRAM AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

2018-002 Significant Deficiency and Noncompliance – Activities Allowed and Unallowed and Allowable Costs/Cost Principles – Juvenile Mentoring Program – CFDA #16.726 (Continued)

Recommendation: We recommend that the Girls Incorporated review all documentation on a monthly basis to ensure all costs applied to the federal award are adequately documented.

Views of Responsible Officials and Planned Corrective Actions: Girls Incorporated agrees with the finding, and in fiscal year 2019 the recommendations will be implemented.

**CORRECTIVE ACTION PLAN
Year Ended March 31, 2018**

U.S. Department of Justice

Girls Incorporated respectively submits the following corrective action plan for the year ended March 31, 2018.

Name and address of independent public accounting firm:

Katz, Sapper & Miller, LLP
800 East 96th Street, Suite 500
Indianapolis, IN 46240

Audit period: Year ended March 31, 2018

The findings from the schedule of findings and questioned costs (the Schedule) for the year ended March 31, 2018, are discussed below. The findings are numbered consistently with the number assigned in the Schedule.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2018-001 Significant Deficiency and Noncompliance – Subrecipient Monitoring – Juvenile Mentoring Program – CFDA #16.726

Recommendation: The auditors recommend that the Girls Incorporated review 2 CFR 200.331 to ensure that all requirements for subrecipient monitoring are implemented. This includes:

- a. Updating the award agreements to adhere to the requirements as outlined at 200.331 (a).
- b. Creating and documenting a formal risk assessment process that adheres to the requirements at 2 CFR 200.331 (b) and determines the Girls Incorporated's monitoring activities.

Planned Actions: Compliance is paramount to everything we do at the Girls Incorporated, and we welcome the opportunity for continuous improvement that ensures we uphold the public's trust through proper and effective financial controls. While the administration and staffing of this program have documented the criteria for which the subrecipients must achieve or comply in order to obtain a grant, monitors the criteria and documents the outcome on a regular basis and evaluates the affiliates financial health and compliance of the program Girls Incorporated acknowledges that it does not have a document for a formal risk assessment. With that, the Girls Incorporated will begin implementing changes to ensure compliance with 2 CFR 200.331 for federal wards beginning in the current fiscal year 2019 and thereafter. These changes will include preparing and implementing a plan to conduct formal risk assessments of subrecipients to ensure compliance with 2 CFR 200.331. The plans will address monitoring by the Girls Incorporated and entail guidelines for follow up and corrective action when needed, and all subrecipient agreements will be updated to include certain identifying elements and ensure compliance with 2 CFR 200.331.

2018-002 Significant Deficiency and Noncompliance – Allowable Activities – Juvenile Mentoring Program – CFDA #16.726

Recommendation: We recommend that the Girls Incorporated review all documentation on a monthly basis to ensure all costs applied to the federal award are adequately documented.

Planned Actions: Compliance is paramount to everything we do at the Girls Incorporated, and we welcome the opportunity for continuous improvement that ensures we uphold the public's trust through proper and effective financial controls. With that, beginning with Fiscal Year 2019 Girls

Incorporated has amended the travel and expense reimbursement policy so that expense requests without adequate support will not be paid or reimbursed.

Contact Person Responsible for Corrective Action:

Rebecca Carroll

Director of Finance

(317) 634-7546 Ext. 148

racroll@girlsinc.org

Sincerely,

A handwritten signature in cursive script that reads "Rebecca Carroll".

Rebecca Carroll