

**SONS OF THE REVOLUTION IN THE  
STATE OF NEW YORK, INC.**

**Financial Statements  
for the year ended  
September 30, 2012  
(with summarized comparative  
information for the year ended  
September 30, 2011)**

---

CONDON  
O'MEARA  
MCGINTY &  
DONNELLY LLP

---

Certified Public Accountants

One Battery Park Plaza  
New York, NY 10004-1405  
Tel: (212) 661 - 7777  
Fax: (212) 661 - 4010

**Independent Auditor's Report**

To the Board of Managers  
Sons of the Revolution in the  
State of New York, Inc.


We have audited the accompanying statements of financial position of the Sons of the Revolution in the State of New York, Inc. (the "Society") as of September 30, 2012 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information was derived from the Society's 2011 financial statements and, in our report dated January 13, 2012, we expressed a qualified opinion on those financial statements due to the Society's policy of not providing for depreciation on its property and equipment.

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

As discussed in note 2, the Society follows the policy of not providing for depreciation on its property and equipment. This practice is not in conformity with accounting principles generally accepted in the United States of America. The effect on the financial statements of this practice is not readily determinable.

In our opinion, except for the effect of the practice referred to in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Sons of the Revolution in the State of New York, Inc. at September 30, 2012, the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Condon O'Meara McGinty + Donnelly LLP*



July 10, 2013

**SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.**

**Statements of Financial Position**

**Assets**

	<u>September 30</u>	
	<u>2012</u>	<u>2011</u>
<b>Current assets</b>		
Cash	\$ 500	\$ 18,612
Current portion of pledges receivable	8,238	7,875
Other receivables	28,369	-
Investments, at fair value	4,381,383	3,952,231
Inventory and prepaid expenses	47,271	53,465
Current portion of promissory note	97,987	122,987
Total current assets	<u>4,563,748</u>	<u>4,155,170</u>
<b>Pledges receivable – net of current portion</b>	<u>4,110</u>	<u>12,358</u>
<b>Security deposit</b>	<u>296</u>	<u>12,789</u>
<b>Promissory note – net of current portion</b>	<u>25,000</u>	<u>-</u>
<b>Property and equipment</b>		
Real estate and improvements	1,147,501	1,132,476
Roof restoration	1,132,268	1,132,268
Museum memorabilia	277,746	277,746
Furniture and furnishings	244,427	244,427
Total property and equipment	<u>2,801,942</u>	<u>2,786,917</u>
<b>Total assets</b>	<u>\$7,395,096</u>	<u>\$6,967,234</u>

**Current Liabilities and Net Assets**

<b>Current liabilities</b>		
Cash overdraft	\$ 10,610	-
Accounts payable and accrued expenses	64,264	66,223
Deposit payable	296	12,789
Total current liabilities	<u>75,170</u>	<u>79,012</u>
<b>Net assets</b>		
Unrestricted		
General operating fund	2,926,195	2,915,758
Board-designated funds	684,583	677,840
Total unrestricted	<u>3,610,778</u>	<u>3,593,598</u>
Temporarily restricted	20,920	20,233
Permanently restricted	3,688,228	3,274,391
Total net assets	<u>7,319,926</u>	<u>6,888,222</u>
<b>Total current liabilities and net assets</b>	<u>\$7,395,096</u>	<u>\$6,967,234</u>

See notes to financial statements.

SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.

Statements of Activities  
For the Year Ended September 30, 2012  
(with summarized comparative information for the year ended September 30, 2011)

	Unrestricted					Total		
	General Operating Fund	Board - Designated Funds	Museum Fund	Total Unrestricted	Temporarily Restricted		Permanently Restricted	2012
<b>Support and revenue</b>								
Support								
Contributions, bequests, grants and pledges	\$ 17,395	\$ 16,521	\$ 29,407	\$ 63,323	\$ 29,651	\$ -	\$ 92,974	\$ 101,960
George Washington Ball	49,175	-	-	49,175	-	-	49,175	65,255
Flag Day contributions	6,488	-	-	6,488	-	-	6,488	6,281
Total support	<u>73,058</u>	<u>16,521</u>	<u>29,407</u>	<u>118,986</u>	<u>29,651</u>	<u>-</u>	<u>148,637</u>	<u>173,496</u>
Revenue								
Program services	29,103	-	81,654	110,757	-	-	110,757	85,332
Life memberships	-	4,000	-	4,000	-	-	4,000	-
Real estate rentals	380,355	-	-	380,355	-	-	380,355	276,571
Interest and dividends	-	19,660	438	20,098	117,062	-	137,160	95,665
Realized gain (loss) on sale of investments	-	2,093	-	2,093	-	12,245	14,338	(1,193,663)
Other income	13,024	-	-	13,024	-	-	13,024	16,610
Net assets released from restrictions	129,947	-	16,079	146,026	(146,026)	-	-	-
Total revenue	<u>552,429</u>	<u>25,753</u>	<u>98,171</u>	<u>676,353</u>	<u>(28,964)</u>	<u>12,245</u>	<u>659,634</u>	<u>(719,485)</u>
Total support and revenue	<u>625,487</u>	<u>42,274</u>	<u>127,578</u>	<u>795,339</u>	<u>687</u>	<u>12,245</u>	<u>808,271</u>	<u>(545,989)</u>
<b>Expenses</b>								
Program services								
Commemorative and fellowship	28,142	-	162,171	190,313	-	-	190,313	211,808
Museum programs and activities	-	-	200,686	200,686	-	-	200,686	221,894
Total program services	<u>28,142</u>	<u>-</u>	<u>362,857</u>	<u>390,999</u>	<u>-</u>	<u>-</u>	<u>390,999</u>	<u>433,702</u>
Supporting services								
General and administrative	394,425	8,454	55,947	458,826	-	-	458,826	366,943
Fund raising	29,305	-	20,662	50,167	-	-	50,167	73,026
Total supporting services	<u>423,730</u>	<u>8,454</u>	<u>76,609</u>	<u>508,993</u>	<u>-</u>	<u>-</u>	<u>508,993</u>	<u>439,969</u>
Total expenses	<u>452,072</u>	<u>8,454</u>	<u>439,466</u>	<u>899,992</u>	<u>-</u>	<u>-</u>	<u>899,992</u>	<u>873,671</u>
Excess (deficiency) of support and revenue over expenses before other additions (deductions)	173,415	33,820	(311,888)	(104,653)	687	12,245	(91,721)	(1,419,660)
Appropriation of general operating funds	(311,888)	-	311,888	-	-	-	-	-
Unrealized gain on investments	-	121,833	-	121,833	-	401,592	523,425	1,165,645
Interfund transfer	148,910	(148,910)	-	-	-	-	-	-
Increase (decrease) in net assets	<u>10,437</u>	<u>6,743</u>	<u>-</u>	<u>17,180</u>	<u>687</u>	<u>413,837</u>	<u>431,704</u>	<u>(254,015)</u>
Net assets, beginning of year	<u>2,915,758</u>	<u>677,840</u>	<u>-</u>	<u>3,593,598</u>	<u>20,233</u>	<u>3,274,391</u>	<u>6,888,222</u>	<u>7,142,237</u>
Net assets, end of year	<u>\$ 2,926,195</u>	<u>\$ 684,583</u>	<u>\$ -</u>	<u>\$ 3,610,778</u>	<u>\$ 20,920</u>	<u>\$ 3,688,228</u>	<u>\$ 7,319,926</u>	<u>\$ 6,888,222</u>

See notes to financial statements.

SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.

Statements of Functional Expenses  
 For the Year Ended September 30, 2012  
 (with summarized comparative information for the year ended September 30, 2011)

	Program Services		Supporting Services		Total 2012	Total 2011
	Commemorative and Fellowship	Museum Programs and Activities	Total Program Services	General and Administrative Fund Raising		
Salaries and wages	\$ 65,345	\$ 69,825	\$ 135,170	\$ 70,693	\$ 5,074	\$ 203,551
Fringe benefits	21,169	18,933	40,102	25,377	1,152	76,105
Outside services	7,043	12,966	20,009	52,746	855	119,200
Real estate taxes	-	-	-	78,996	-	78,742
Professional fees	8,041	9,306	17,347	23,960	-	26,621
Insurance	-	2,432	2,432	107,525	-	99,112
Maintenance and repairs	17,586	20,760	38,346	30,567	-	34,302
Advertising	-	300	300	-	69	130
George Washington Ball	-	-	-	-	29,505	44,585
Utilities	18,805	18,805	37,610	12,537	-	59,430
Board and Committee expense	17,892	-	17,892	-	-	21,260
Supplies	1,853	7,031	8,884	3,785	-	10,590
Publications and dues	348	1,465	1,813	12,465	-	14,174
Printing	500	277	777	1,395	3,370	8,135
Flag Day	10,250	-	10,250	-	-	8,304
Telephone	2,493	3,209	5,702	3,898	-	9,363
Postage	98	455	553	2,460	142	3,475
Security	8,943	9,254	18,197	6,680	-	23,872
Travel, meals and hospitality	2,355	439	2,794	1,287	10,000	2,881
Office equipment	7,592	5,058	12,650	-	-	11,611
Awards and benevolence	-	-	-	2,553	-	1,617
Website	-	-	-	-	-	719
Shipping of paintings	-	-	-	-	-	313
Loan fees for exhibits	-	-	-	-	-	150
Miscellaneous	-	20,171	20,171	21,902	-	15,429
<b>Total expenses - 2012</b>	<b>\$ 190,313</b>	<b>\$ 200,686</b>	<b>\$ 390,999</b>	<b>\$ 458,826</b>	<b>\$ 50,167</b>	<b>\$ 899,992</b>
<b>Total expenses - 2011</b>	<b>\$ 211,808</b>	<b>\$ 221,894</b>	<b>\$ 433,702</b>	<b>\$ 366,943</b>	<b>\$ 73,026</b>	<b>\$ 873,671</b>

See notes to financial statements.

**SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.**

**Statements of Cash Flows**

	<b>Year Ended</b>	
	<b>September 30</b>	
	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets	\$ 431,704	\$ (254,015)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) operating activities		
Realized (gain) loss on sale of investments	(14,338)	1,193,663
Unrealized (gain) on investments	(523,425)	(1,165,645)
(Increase) decrease in assets		
Grant receivable	-	40,000
Pledges receivable	7,885	(20,233)
Other receivables	(28,369)	-
Inventory and prepaid expenses	6,194	(23,298)
Increase (decrease) in liabilities		
Cash overdraft	10,610	-
Accounts payable and accrued expenses	(1,959)	(1,417)
Deposit payable	(12,493)	(37,233)
Net cash (used in) operating activities	<u>(124,191)</u>	<u>(268,178)</u>
<b>Cash flows from investing activities</b>		
Expenditures for property and equipment	(15,025)	(147,073)
Proceeds from sale of investments	252,663	495,202
Purchase of investments	(144,052)	(135,661)
Decrease in security deposit	12,493	37,233
Net cash provided by investing activities	<u>106,079</u>	<u>249,701</u>
<b>Net (decrease) in cash</b>	<b>(18,112)</b>	<b>(18,477)</b>
<b>Cash, beginning of year</b>	<u>18,612</u>	<u>37,089</u>
<b>Cash, end of year</b>	<u>\$ 500</u>	<u>\$ 18,612</u>

See notes to financial statements.

**SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.****Notes to Financial Statements  
September 30, 2012****Note 1 – Nature of organization**

The Sons of the Revolution in the State of New York, Inc. (the “Society”) was instituted in 1876 and incorporated in 1884. The Society was organized to perpetuate the memory of the men who, in military, naval or civil service, by their acts or counsel, achieved American independence; to promote and assist in various celebrations of the anniversaries relating to or connected with the war of the revolution and to inspire among the members and their descendants the patriotic spirit of their forefathers.

Fraunces Tavern® Museum (the “Museum”) was founded in 1907 and is owned and operated by the Sons of the Revolution in the State of New York, Inc. (the “Society”) and its accounts are included in the Society’s financial statements. The Museum’s mission is to educate the public and create genuine appreciation for New York City History as it relates to Colonial America, the American Revolutionary War, and the Early Republic; this mission is fulfilled through the preservation of its collection and interpretation of the Society’s landmarked 1719 building along with varied exhibitions of art and artifacts as they relate to the historic site and the American Revolution. The Museum’s vision will strive to be an inspiring resource in providing a thorough understanding of various elements of early American life while promoting a particular appreciation for the American Revolutionary War and the rich history that exists in Lower Manhattan. With a culturally significant collection, the Museum will continue to be a vital institution to a growing audience that offers compelling programs and exhibits while expanding on public accessibility both on and off site.

**Note 2 – Summary of significant accounting policies****Net assets**

The Society maintains three classes of net assets as follows:

- 1) Unrestricted net asset, consist of the General Operating Fund, the Board Designated Funds and the Museum Fund which are defined as follows:
  - General Operating Fund – Funds available for current operations.

**SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.****Notes to Financial Statements (continued)  
September 30, 2012****Note 2 – Summary of significant accounting policies (continued)****Net assets (continued)**

## 1) (continued)

- Board Designated Funds – Consists of amounts that are designated by the Board and are classified as follows:
  - The Reserve Fund was established to set aside all initiation and life membership fees, and all donor, patron and fellow subscriptions which may be made to the Society.
  - The Flag Fund was established for the acquisition by the Society of reproductions of flags, colors and standards carried by the Continental Troops in the War of the Revolution.
  - The Permanent Fund was established from the contributions and from other monies as may be from time to time received by the Society and which are directed by the Board of Managers to be credited to such Fund, the same to remain forever to the use of the Society, the income only of which shall be expensed.
  - The Capital Campaign Fund was established to raise funds for the restoration and improvement of Fraunces Tavern and other buildings owned by the Society. The related support, revenue and expenses are recorded in this Fund.
  - The Museum Endowment Fund was segregated for the museum endowment aspect of the capital campaign, and the designated amounts are available for programs and activities conducted by the Fraunces Tavern® Museum.
  - The Deaccession Collections Fund consists of proceeds from the sale of the Society's collection and other works of art and may be used for direct care and/or preserving the Society's existing collection or to buy additional items for the collection and/or other works of art.

The assets of the Board designated funds are pooled with the Society's investment assets.

- Museum Fund – Consists of revenue and expenses incurred by the Fraunces Tavern Museum.
- 2) Temporarily restricted net assets consist of contributions that are restricted by the donor for a specific purpose or pertain to future periods. When the stipulated purpose of the restriction is achieved, temporarily restricted net assets are reclassified as unrestricted and reported in the statements of activities as net assets released from restrictions.



SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.

Notes to Financial Statements (continued)  
September 30, 2012

Note 2 – Summary of significant accounting policies (continued)

Net assets (continued)

- 3) Permanently restricted net assets, which consist of gifts to the Society, the principal of which is permanently restricted.
  - Shelby C. Davis Fund – Established through a gift made by the Shelby C. Davis Foundation. The principal portion cannot be expended. The value of the Shelby C. Davis Fund as of September 30, 2012 and September 30, 2011 was \$3,687,978 and \$3,274,141, respectively.
  - Building Maintenance Endowment Fund – The Building Maintenance Endowment Fund is to remain forever to the use of the Society, the income only of which shall be expended solely for the maintenance of the buildings comprising of the Fraunces Tavern® Museum complex, as determined by the Board of Managers. The value of the Building Maintenance Endowment Fund was \$250 as of September 30, 2012 and September 30, 2011.

Interfund transfer

During the 2012 fiscal year, the Society transferred \$148,910 from the board designated funds to the general operating fund.

Cash equivalents

The Society considers highly liquid investments with original maturities of 90 days or less to be cash equivalents. As of September 30, 2012, the Society did not have any cash equivalents.

Allowance for doubtful accounts

The Society does not have an allowance for doubtful accounts for any potentially uncollectible receivables. Such estimate is based on management's experience, the aging of the receivables, subsequent receipts and economic conditions.

Investments

Investments are recorded at fair value. The fair value of the investments is based on publicly quoted prices. Realized gains or losses on sales of investments are determined on the basis of average cost and are recorded in the general operating and board designated funds, except for realized and unrealized gains or losses on investments held by the Shelby C. Davis Fund, which are recorded in that fund.

**SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.****Notes to Financial Statements (continued)  
September 30, 2012****Note 2 – Summary of significant accounting policies (continued)****Property and equipment**

Property and equipment expenditures above a nominal amount and with a useful life greater than one year are capitalized and are recorded at cost as to items purchased and at appraised value as to items acquired by gift or bequest. The Society follows the policy of not providing for depreciation.

**Contributions**

The Museum reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulation expires, that is, when a stipulated time restriction ends or the purpose for restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted contributions are reported as increase in unrestricted net assets if the restrictions are satisfied within the same fiscal year the contributions are received.

Bequests are recorded as revenue when a legally binding obligation is received and when a fair value can reasonably be determined.

**Collections**

The Museum's collections are made up of artifacts of historical significance and art objects that are held for educational exhibit and curatorial purposes. Proceeds from de-accessions or insurance recoveries are used to acquire or preserve other items for collection. Contributions for the purchase of items for the collection are classified as temporarily restricted net assets until acquisitions are made. The Museum's collections and exhibits are not capitalized in the statements of financial position. Purchases of items are expensed in the year that the items are acquired. The cost of these items is reported as a separate program expense. Contributed collection items are not reflected in the financial statements.

**Service marks and other works of art**

No amount has been reflected in the financial statements for the Fraunces Tavern® service mark and other works of art owned by the Society.

**Functional expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.****Notes to Financial Statements (continued)  
September 30, 2012****Note 2 – Summary of significant accounting policies (continued)****Donated services**

The Society receives donated services rendered by volunteers who have donated significant amounts of time to the Society's activities and museum. No amounts have been reflected in the financial statements for donated services in as much as no objective basis is available to measure the value of such services.

**Comparative financial information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended September 30, 2011, from which the summarized information was derived.

**Concentrations of credit risk**

The Society's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, receivables, investments and its promissory note. The Society places its cash with what it believes to be quality financial institutions. The Society has not experienced any losses in such bank accounts to date. The Society invests in money market funds, mutual funds and domestic equities. Investments are exposed to various risks such as interest rate, market and credit. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the statements of financial position at September 30, 2012. The Society's management monitors the collectibility of its receivables and promissory note as an on going basis. The Society routinely assesses the financial strength of its cash and investments. As a consequence, management believes concentrations of credit risk are limited.

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

**Subsequent events**

Management has evaluated the need for additional disclosures and/or adjustments resulting from subsequent events through July 10, 2013, which is the date the financial statements were available to be issued. This evaluation did not result in any subsequent event that necessitated disclosure and/or adjustments other than those contained herein.

**SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.**

**Notes to Financial Statements (continued)**  
**September 30, 2012**

**Note 3 – Investments**

The following is a summary of investments at September 30, 2012 and September 30, 2011:

	Sons Investments			
	2012		2011	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 106,817	\$ 106,817	\$ 261,398	\$ 261,398
Mutual funds				
Dividend appreciation fund	189,800	211,829	189,791	172,888
Bond funds	182,726	193,949	153,441	150,626
Growth equity fund	58,410	67,578	58,410	52,050
Emerging markets income fund	58,326	64,048	29,205	26,699
Gold, national resource and income fund	16,058	17,057	-	-
Precious metals and minerals fund	14,600	11,828	14,600	14,179
Total mutual funds	<u>519,920</u>	<u>566,289</u>	<u>445,447</u>	<u>416,442</u>
Domestic equities	<u>19,011</u>	<u>20,049</u>	-	-
Total Sons investments	<u>\$ 645,748</u>	<u>\$ 693,155</u>	<u>\$ 706,845</u>	<u>\$ 677,840</u>
	Shelby C. Davis Fund			
	2012		2011	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 258,554	\$ 258,554	\$ 838,489	\$ 838,489
Mutual funds				
Dividend appreciation fund	1,110,200	1,239,057	1,110,200	1,011,274
Bond funds	1,068,819	1,134,467	897,527	881,063
Growth equity fund	341,660	395,285	341,660	304,454
Emerging markets income fund	341,168	374,640	170,830	156,171
Gold, national resource and income fund	93,927	99,770	-	-
Precious metals and minerals fund	85,400	69,182	85,400	82,940
Total mutual funds	<u>3,041,174</u>	<u>3,312,401</u>	<u>2,605,617</u>	<u>2,435,902</u>
Domestic equities	<u>111,202</u>	<u>117,273</u>	-	-
Total Shelby C. Davis Fund and Building Maintenance Endowment Fund investments	<u>3,410,930</u>	<u>3,688,228</u>	<u>3,444,106</u>	<u>3,274,391</u>
Total investments	<u>\$4,056,678</u>	<u>\$4,381,383</u>	<u>\$4,150,951</u>	<u>\$3,952,231</u>

**SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.**

**Notes to Financial Statements (continued)  
September 30, 2012**

**Note 3 – Investments (continued)**

**Fair value measurements**

For assets measured at fair value on a recurring basis, as of and September 30, 2012, Financial Accounting Standards, Fair Value Measurements require quantitative disclosure about the fair value measurement separately for each major category of assets. The Society's investments have been classified in the highest level of hierarchy (Level 1). These quoted prices are in active markets for identical assets.

**Note 4 – Pledges receivable**

Pledges receivable are unconditional promises to make donations to the Society. As of September 30, 2012, pledges receivable are expected to be received as follows:

Due in one year	\$ 8,238
Due in one to five years	<u>4,110</u>
Total	<u>\$ 12,348</u>

**Note 5 – Promissory note**

On February 17, 2009, the principals of the previous restaurant tenant executed and delivered a promissory note to the Society in the principal amount of \$122,987 which the Society accepted in full payment of total amount of arrearages in base rent owing from the previous tenant as of that date. The promissory note bears simple interest at the rate of 3% per annum and all outstanding principal and accrued interest was due and payable on January 1, 2012. During December 2011, the Society received notice from the principals of the previous tenant that they will not pay the note. The Society intends to vigorously pursue collection of the note. On October 5, 2012, the Society and one of the principals agreed to settle a portion of the receivable. The Society intends on seeking the remaining balance from another principal of the previous restaurant. As of September 30, 2012, the promissory note is expected to be received as follows:

Due in 2013	\$ 97,987
Due in 2014	<u>25,000</u>
Total	<u>\$ 122,987</u>

**Note 6 – Lease agreements**

During April 2010, the Society entered into a lease agreement as a landlord to lease a portion of its facility for a restaurant premises. The restaurant operations have been undertaken by an independent contractor (the "tenant") and the food and beverage sales and related expenses are reflected separately in the books and records of the tenant and are not reflected in the accounts and records of the Society. In addition, all related taxes incurred with the restaurant operations are paid by the tenant.

**SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.**

**Notes to Financial Statements (continued)**  
**September 30, 2012**

**Note 6 – Lease agreements (continued)**

The lease term, which expires March 31, 2020, requires a monthly base rent of \$18,782 as of April 1, 2010 through March 31, 2013. (No rent was due for February 2011 and March 2011.) In accordance with the terms of the lease, the monthly base rent is adjusted thereafter until the lease expires in March 2020. In addition to the base rent, the tenant shall pay a percentage of all restaurant gross sales as defined in the lease agreement. The tenant has posted a security deposit of \$296. On September 2, 2010, the tenant executed and delivered an Irrevocable Standby Letter of Credit (the "Letter of Credit") in favor of the Society for a sum not exceeding \$250,000 expiring in September 2011 and automatically extended without amendment for further periods of one year. During the fiscal year 2011, the Letter of Credit was reduced to \$100,000. As of the date of this report, the tenant has proposed to restore the security deposit to \$100,000 within a year.

The Society also has a lease agreement as a landlord to lease a portion of its facility to another non-profit organization. During October 2010, the Society extended the terms of the lease agreement so that the lease shall expire on December 31, 2020. The lease requires a monthly base rent of \$6,250 as of January 1, 2011. In accordance with the terms of the lease, the base rent is adjusted thereafter until the lease expires in December 2020. For each fiscal year, the base rent will be as follows:

<u>Fiscal Year</u>	<u>Restaurant Premises Amount</u>	<u>Non-Profit Facility Amount</u>	<u>Total</u>
2013	\$ 234,384	\$ 77,982	\$ 312,366
2014	243,384	79,736	323,120
2015	252,384	81,530	333,914
2016	261,384	83,365	344,749
2017	261,384	85,245	346,629
2018 and thereafter	<u>689,460</u>	<u>290,313</u>	<u>979,773</u>
Total	<u>\$1,942,380</u>	<u>\$ 698,171</u>	<u>\$2,640,551</u>

**Note 7 – Retirement plan**

The Society has a contributory defined contribution annuity plan covering substantially all employees. Under the terms of the plan, the Society contributes amounts ranging from 2% to 10% of an employee's gross earnings to the plan. Eligible employees can contribute up to the maximum percentage of their compensation allowable, not to exceed the Internal Revenue Code limitation. Such contributions are used to purchase individual annuity contracts for the employees. Plan expense for fiscal years 2012 and 2011 amounted to \$14,160 and \$13,892, respectively.

**SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.**

**Notes to Financial Statements (continued)  
September 30, 2012**

**Note 8 – Museum support**

For the 2012 fiscal year, the Society appropriated funds from the general operating fund totaling \$311,888 to the museum fund. Since the 1985 fiscal year, the Society has transferred \$10,374,209 from the general operating fund and the board designated funds to the museum fund to defray the costs of the museum.

The following is a schedule by years since 1985 of the transfers and appropriations:

<u>Year Ending September 30</u>	<u>Total</u>
1985 – 1995	\$ 4,182,716
1996 – 2005	3,412,637
2006 – 2011	2,466,968
2012	<u>311,888</u>
Total	<u>\$ 10,374,209</u>

**Note 9 – Litigation**

The Society is currently involved in legal proceedings arising in the ordinary course of business. The Society believes it has a defense for the proceedings and is vigorously defending the actions.

**Note 10 – Hurricane Sandy**

On October 29, 2012, as a result of Hurricane Sandy, the Society sustained damage to its buildings and infrastructure. As of the date of this report, the Society has incurred approximately \$200,000 in expenses relating to the storm and has received approximately \$75,000 in revenue from the membership in order to offset the costs. The Society has filed a claim with its insurance carrier, which was denied and is currently in mediation. Any insurance proceeds received will be recorded in the 2013 fiscal year financial statements.

**Note 11 – Tax status**

The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”). In addition, the Society has been determined by the Internal Revenue Service to be a publicly supported organization, and not a private foundation, within the meaning of Section 509(a)(1) of the Code. Donors are eligible to receive the maximum charitable deductions available for public charities under the Code. At September 30, 2012, no amounts have been recognized for uncertain income tax positions. The Society’s tax returns for the 2009 fiscal year and forward are subject to the usual review by the appropriate authorities.

**SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.****Notes to Financial Statements (continued)  
September 30, 2012****Note 12 – Endowments**

The Society's endowment and board-designated funds consist of various individual funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowments and board-designated funds are classified and reported based on donor-imposed restrictions.

**Investment objectives and principles****Objective**

The investment objective for the portfolio of the Society is to seek a high current total return (consisting of income and appreciation), consistent with preservation of capital, including as a secondary but important consideration investments in good quality securities with potential for capital appreciation as a hedge against inflation. Except for cash and cash equivalents, the investment objective shall be applied over the long-term (5 to 15 years).

**Investment principles**

(1) Investments will be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims. (2) Investments shall be made solely in the interest of the Society. No investment shall be made in the event of any conflict of financial interest by, or personal benefit to, a member of the Investment Committee or the Board of Managers or the immediate family of any such person. (3) Investment shall be diversified as prudent to reduce the risk of loss unless under the circumstances it is clearly prudent not to diversify.

**Asset Allocations:**

- (1) At least 20% but no more than 75% of the value of the Portfolio shall be invested in equity securities (i.e., common or preferred shares), of which up to 30% may be securities of foreign issuers.
- (2) At least 25% but no more than 75% of the value of the Portfolio shall be invested in U.S. Government securities and other fixed income securities (including floating rate, discount and inflation-adjusted obligations) rated at least investment grade by Fitch, Moody's or Standard & Poor's Rating Service, of which amount no more than 20% may be invested in convertible bonds and notes and obligations accompanied by warrants.



**SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.**

**Notes to Financial Statements (continued)  
September 30, 2012**

**Note 12 – Endowments (continued)**

**Asset Allocations (continued)**

- (3) No more than 25% of the value of the Portfolio shall be invested in cash and cash equivalents (including in money market funds believed to be of good quality and sold without sales charge).
- (4) No more than 25% of the value of the Portfolio may be invested in other securities (including fixed income securities with lower ratings and REITS) reasonably determined in the context of the remainder of the Portfolio as likely to help the achievement of the investment objective stated above.
- (5) For each percentage point of value of the portfolio in excess of 15% invested in the securities referred to in paragraph (4) above, the limit on investment in equity securities referred to in paragraph (1) on the previous page, shall be reduced by a percentage point.

**Interpretation**

The Society follows the New York State Not-For-Profit Corporation Law (N-PCL) when adhering to donor-restricted contributions. The Society preserves the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the Society and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and appreciation of investments, other resources of the Society, and the investment policies of the Society.

As of September 30, 2012, the Board-Designated, Temporarily Restricted and Permanently Restricted Net Asset composition consist of the following:

**Assets**

Pledges receivable	\$	12,348
Investments, at fair value		<u>4,381,383</u>
Total	\$	<u>4,393,731</u>

SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.

Notes to Financial Statements (continued)  
September 30, 2012

Note 12 – Endowments (continued)

Interpretation (continued)

**Endowment Net Asset Composition by Type of Fund as of September 30, 2012:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 20,920	\$3,688,228	\$ 3,709,148
Board-designated endowment funds	<u>684,583</u>	<u>-</u>	<u>-</u>	<u>684,583</u>
Total funds	<u>\$ 684,583</u>	<u>\$ 20,920</u>	<u>\$3,688,228</u>	<u>\$ 4,393,731</u>

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 Society 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 permanent endowment fund deficiencies as of September 30, 2012.

SONS OF THE REVOLUTION IN THE STATE OF NEW YORK, INC.

Notes to Financial Statements (continued)  
September 30, 2012

Note 12 – Endowments (continued)

The following is a summary of the unrestricted board designated funds for the year ended September 30, 2012:

	Reserve Fund	Flag Fund	Permanent Fund	Capital Campaign Fund	Museum Endowment Fund	Deaccession Collections Fund	Board Designated Funds
<b>Balance at September 30, 2011</b>	<u>\$ 300,444</u>	<u>\$ 90,394</u>	<u>\$ 59,551</u>	<u>\$ 1,063</u>	<u>\$ 109,358</u>	<u>\$ 117,030</u>	<u>\$ 677,840</u>
Investment returns							
Interest and dividends	10,507	3,161	2,082	-	3,824	86	19,660
Net realized gain on sale of investments	1,124	338	223	-	408	-	2,093
Unrealized gain on investment	65,388	19,676	12,963	-	23,806	-	121,833
Total investment returns	<u>77,019</u>	<u>23,175</u>	<u>15,268</u>	<u>-</u>	<u>28,038</u>	<u>86</u>	<u>143,586</u>
Sub-total	<u>377,463</u>	<u>113,569</u>	<u>74,819</u>	<u>1,063</u>	<u>137,396</u>	<u>117,116</u>	<u>821,426</u>
Contributions	-	-	-	16,521	-	-	16,521
Life memberships	4,000	-	-	-	-	-	4,000
Appropriation of expenditures	-	(1,431)	-	(7,023)	-	-	(8,454)
Transfer (to) the general operating fund	<u>(93,095)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(55,815)</u>	<u>(148,910)</u>
<b>Balance at September 30, 2012</b>	<u>\$ 288,368</u>	<u>\$ 112,138</u>	<u>\$ 74,819</u>	<u>\$ 10,561</u>	<u>\$ 137,396</u>	<u>\$ 61,301</u>	<u>\$ 684,583</u>

The following is a summary of the temporarily restricted net assets for the year ended September 30, 2012:

	Balance at September 30, 2011	Contributions	Interest and Dividends	Net assets Released from Restrictions	Balance at September 30, 2012
Operating fund					
Shelby C. Davis Fund	\$ -	\$ -	\$ 117,062	\$ (117,062)	\$ -
Times restricted	20,233	5,000	-	(12,885)	12,348
Dunsmore Painting Conservation Project	-	24,651	-	(16,079)	8,572
<b>Total temporarily restricted</b>	<u>\$ 20,233</u>	<u>\$ 29,651</u>	<u>\$ 117,062</u>	<u>\$ (146,026)</u>	<u>\$ 20,920</u>