

Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2022 and 2021

Boys and Girls Clubs of Greater Houston, Inc.

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Independent Auditors' Report

To the Board of Directors of
Boys and Girls Clubs of Greater Houston, Inc.:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Boys and Girls Clubs of Greater Houston, Inc., which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Boys and Girls Clubs of Greater Houston, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with 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. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Boys and Girls Clubs of Greater Houston, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Boys and Girls Clubs of Greater Houston, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Boys and Girls Clubs of Greater Houston, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Boys and Girls Clubs of Greater Houston, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2023 on our consideration of Boys and Girls Clubs of Greater Houston, Inc.'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 solely 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 the effectiveness of Boys and Girls Clubs of Greater Houston, Inc.'s 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 Boys and Girls Clubs of Greater Houston, Inc.'s internal control over financial reporting and compliance.



July 20, 2023

Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Statements of Financial Position as of December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents <i>(Notes 3 and 5)</i>	\$ 3,471,788	\$ 3,774,145
Contributions receivable, net <i>(Note 4)</i>	3,535,288	3,558,331
Prepaid expenses and other assets	185,270	124,258
Investments <i>(Note 5)</i>	6,107,016	7,009,080
Property and equipment, net <i>(Note 6)</i>	<u>10,070,875</u>	<u>10,300,805</u>
TOTAL ASSETS	<u>\$ 23,370,237</u>	<u>\$ 24,766,619</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 282,918	\$ 191,922
Accrued payroll expenses	617,393	390,343
Refundable advances	108,000	
Paycheck Protection Program refundable advance <i>(Note 2)</i>	<u> </u>	<u>901,277</u>
Total liabilities	<u>1,008,311</u>	<u>1,483,542</u>
Contingencies <i>(Notes 7 and 9)</i>		
Net assets:		
Without donor restrictions <i>(Note 10)</i>	13,993,582	14,063,742
With donor restrictions <i>(Notes 11 and 12)</i>	<u>8,368,344</u>	<u>9,219,335</u>
Total net assets	<u>22,361,926</u>	<u>23,283,077</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 23,370,237</u>	<u>\$ 24,766,619</u>

See accompanying notes to consolidated financial statements.

Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Statement of Activities for the year ended December 31, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government (<i>Note 7</i>):			
Nonfinancial (<i>Note 8</i>)		\$ 814,513	\$ 814,513
Cash and other financial		4,201,673	4,201,673
Non-government:			
Nonfinancial (<i>Note 8</i>)	\$ 1,045,401	316,419	1,361,820
Cash and other financial	3,054,388	3,876,662	6,931,050
Special events (net of donor benefits of \$388,424)	943,809		943,809
Net investment return	1,463	(726,211)	(724,748)
Loss on disposal of assets	(15,660)		(15,660)
Other	<u>80,144</u>		<u>80,144</u>
Total revenue	5,109,545	8,483,056	13,592,601
Net assets released from restrictions:			
Expiration of time restrictions	286,649	(286,649)	
Program expenditures	8,694,051	(8,694,051)	
Capital expenditures	<u>353,347</u>	<u>(353,347)</u>	
Total	<u>14,443,592</u>	<u>(850,991)</u>	<u>13,592,601</u>
EXPENSES:			
Program services	11,582,879		11,582,879
Management and general	1,856,019		1,856,019
Fundraising	<u>1,074,854</u>		<u>1,074,854</u>
Total expenses	<u>14,513,752</u>		<u>14,513,752</u>
CHANGES IN NET ASSETS	(70,160)	(850,991)	(921,151)
Net assets, beginning of year	<u>14,063,742</u>	<u>9,219,335</u>	<u>23,283,077</u>
Net assets, end of year	<u>\$ 13,993,582</u>	<u>\$ 8,368,344</u>	<u>\$ 22,361,926</u>

See accompanying notes to consolidated financial statements.

Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Statement of Activities for the year ended December 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government (Note 7):			
Nonfinancial (Note 8)		\$ 550,905	\$ 550,905
Cash and other financial		4,421,622	4,421,622
Non-government:			
Nonfinancial (Note 8)	\$ 1,079,161	261,233	1,340,394
Cash and other financial	3,249,524	3,057,737	6,307,261
Special events (net of donor benefits of \$308,739)	743,388		743,388
Net investment return	(6,430)	752,771	746,341
Loss on disposal of assets	(62,458)		(62,458)
Other	<u>48,565</u>		<u>48,565</u>
Total revenue	5,051,750	9,044,268	14,096,018
Net assets released from restrictions:			
Expiration of time restrictions	342,024	(342,024)	
Program expenditures	<u>7,406,754</u>	<u>(7,406,754)</u>	
Total	<u>12,800,528</u>	<u>1,295,490</u>	<u>14,096,018</u>
EXPENSES:			
Program services	9,744,965		9,744,965
Management and general	1,498,653		1,498,653
Fundraising	<u>1,082,590</u>		<u>1,082,590</u>
Total expenses	<u>12,326,208</u>		<u>12,326,208</u>
CHANGES IN NET ASSETS	474,320	1,295,490	1,769,810
Net assets, beginning of year	<u>13,589,422</u>	<u>7,923,845</u>	<u>21,513,267</u>
Net assets, end of year	<u>\$ 14,063,742</u>	<u>\$ 9,219,335</u>	<u>\$ 23,283,077</u>

See accompanying notes to consolidated financial statements.

Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Statement of Functional Expenses for the year ended December 31, 2022

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related expenses	\$ 5,766,244	\$ 1,080,794	\$ 870,870	\$ 7,717,908
Food and supplies	1,275,465	24,618	13,935	1,314,018
Rent	1,157,428	17,312	23,012	1,197,752
Depreciation	910,499	18,022		928,521
Supplies	606,401	64,646	19,297	690,344
Janitorial and maintenance	630,564	43,027	1,129	674,720
Professional fees	152,926	191,313	39,279	383,518
Contract services	184,759	115,661	33,800	334,220
Insurance	261,046	26,791	21,270	309,107
Information technology	118,677	68,540	20,654	207,871
Utilities	177,296			177,296
Staff training	60,975	75,091	7,184	143,250
Vehicle and transportation	125,842	5,004	3,100	133,946
Advertising	6,275	86,471	9,707	102,453
Telephone	55,147	21,146	3,285	79,578
Printing and postage	6,625	3,720	3,736	14,081
Other	<u>86,710</u>	<u>13,863</u>	<u>4,596</u>	<u>105,169</u>
Total expenses	<u>\$ 11,582,879</u>	<u>\$ 1,856,019</u>	<u>\$ 1,074,854</u>	14,513,752
Donor benefits				<u>388,424</u>
Total				<u>\$ 14,902,176</u>

See accompanying notes to consolidated financial statements.

Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Statement of Functional Expenses for the year ended December 31, 2021

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related expenses	\$ 4,801,608	\$ 1,097,253	\$ 905,891	\$ 6,804,752
Food and supplies	1,007,955	7,886	3,905	1,019,746
Rent	1,109,379	23,149	23,149	1,155,677
Depreciation	914,471	18,047		932,518
Supplies	517,549	29,126	29,501	576,176
Janitorial and maintenance	613,597	18,017	2,782	634,396
Professional fees	28,352	58,744	33,969	121,065
Contract services	117,673	61,132	23,213	202,018
Insurance	233,281	19,937	20,062	273,280
Information technology	46,383	58,276	13,540	118,199
Utilities	168,700			168,700
Staff training	13,638	17,336	2,381	33,355
Vehicle and transportation	54,944	2,877	3,702	61,523
Advertising	4,447	56,634	6,715	67,796
Telephone	57,491	15,083	5,497	78,071
Printing and postage	4,577	5,637	3,862	14,076
Other	<u>50,920</u>	<u>9,519</u>	<u>4,421</u>	<u>64,860</u>
Total expenses	<u>\$ 9,744,965</u>	<u>\$ 1,498,653</u>	<u>\$ 1,082,590</u>	12,326,208
Donor benefits				<u>308,739</u>
Total				<u>\$ 12,634,947</u>

See accompanying notes to consolidated financial statements.

Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Statements of Cash Flows for the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (921,151)	\$ 1,769,810
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for endowment	10,000	10,000
Depreciation	928,521	932,518
Loss on disposal of assets	15,660	62,458
Net realized and unrealized (gain) loss on investments	867,328	(686,705)
Changes in operating assets and liabilities:		
Contributions receivable	23,043	233,398
Prepaid expenses and other assets	(61,012)	16,092
Accounts payable and accrued expenses	318,046	99,109
Refundable advance	108,000	
Paycheck Protection Program refundable advance	<u>(901,277)</u>	<u>(259,080)</u>
Net cash provided by operating activities	<u>387,158</u>	<u>2,177,600</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(786,713)	(428,092)
Proceeds from sale of land	72,462	
Purchases of investments	(2,142,691)	(2,289,872)
Proceeds from sales of investments	1,835,446	1,496,888
Change in money market mutual funds held as investments	<u>341,981</u>	<u>(354,783)</u>
Net cash used by investing activities	<u>(679,515)</u>	<u>(1,575,859)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for endowment	<u>(10,000)</u>	<u>(10,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(302,357)	591,741
Cash and cash equivalents, beginning of year	<u>3,774,145</u>	<u>3,182,404</u>
Cash and cash equivalents, end of year	<u>\$ 3,471,788</u>	<u>\$ 3,774,145</u>

See accompanying notes to consolidated financial statements.

Boys and Girls Clubs of Greater Houston, Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2022 and 2021

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Boys and Girls Clubs of Greater Houston, Inc. (the Clubs) was incorporated in 1989 for the purpose of providing youth development activities in the greater Houston, Texas area. Serving youth from ages 6 to 17 predominantly from lower income families, approximately 22 clubs were in operation in 2022 providing many programs to achieve academic success, healthy lifestyles, and promote good character and citizenship.

Boys and Girls Clubs Foundation (the Foundation) was incorporated under the laws of the State of Texas in 1987 and is governed by a Board of Trustees elected by the Board of Directors of the Clubs.

Basis of consolidation – These financial statements include the assets, liabilities, net assets, and activities of the Clubs and the Foundation (collectively Boys and Girls Clubs). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – The Clubs and the Foundation are exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code (the Code). The Clubs is further classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii). The Foundation is classified as a Type I supporting organization under §509(a)(3).

Cash equivalents consists of highly liquid investments with original maturities of three months or less.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Contributions receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and donor-by-donor analysis of balances.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property and equipment is reported at cost or, if contributed, at the estimated fair value at the date of gift. Boys and Girls Clubs capitalizes additions and improvements with a cost of \$2,500 or more. Depreciation is provided using the straight-line method over estimated useful lives ranging from 3 to 39 years. Leasehold improvements are depreciated over the term of the lease.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the organization is

entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met. Amounts received in advance are reported as refundable advances.

Contributed nonfinancial assets are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Special events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events revenue is recognized when the events occur. Amounts received for future events represent conditional contributions and are reported in the statement of financial position as deferred revenue until earned. Donor benefits represent the cost of goods and services provided to attendees of special events.

Advertising costs are expensed as incurred.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Occupancy costs are allocated based on square footage.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31 comprise the following:

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 3,471,788	\$ 3,774,145
Contributions receivable, net	3,535,288	3,558,331
Investments	<u>6,107,016</u>	<u>7,009,080</u>
Total financial assets	13,114,092	14,341,556
Less financial assets not available for general expenditure:		
Endowment investments, less estimated appropriation	(4,456,969)	(5,334,980)
Donor-restricted assets subject to satisfaction of restriction and the passage of time	(1,657,986)	(1,395,344)
Board-designated operating reserve	<u>(1,657,927)</u>	<u>(1,523,073)</u>
Total financial assets available for general expenditure	<u>\$ 5,341,210</u>	<u>\$ 6,088,159</u>

Boys and Girls Clubs expect routine contributions to fund operations. In the event of a shortfall, Boys and Girls Clubs has a line of credit in the amount of \$1,000,000. The Board of Directors has designated a portion of its resources without donor restrictions. These funds remain available to be spent at the discretion of the Board of Directors.

Boys and Girls Clubs received financial relief of approximately \$901,000 and \$1,160,000 in fiscal years 2021 and 2020, respectively, from Paycheck Protection Program (PPP) loans through the Small Business Administration. PPP loan principal and interest may be forgiven, in whole or in part, if Boys and Girls Clubs meets eligibility requirements and uses the loans to fund qualified payroll and other eligible costs. During 2022 and 2021, Boys and Girls Clubs was notified that principal and interest had been forgiven on the loans and \$901,277 and \$1,160,357 was recognized as contribution revenue in 2022 and 2021, respectively.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31 consist of the following:

	<u>2022</u>	<u>2021</u>
Bank deposits	\$ 181,014	\$ 3,447,009
Money market mutual funds	3,287,907	324,783
Petty cash	<u>2,867</u>	<u>2,353</u>
Total cash and cash equivalents	<u>\$ 3,471,788</u>	<u>\$ 3,774,145</u>

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31 are as follows:

	<u>2022</u>	<u>2021</u>
Contributions receivable	\$ 3,556,819	\$ 3,559,496
Discount to net present value at 0.13% to 4.22%	<u>(21,531)</u>	<u>(1,165)</u>
Contributions receivable, net	<u>\$ 3,535,288</u>	<u>\$ 3,558,331</u>

Contributions receivable at December 31, 2022 are expected to be collected as follows:

2023	\$ 2,926,819
2024	620,000
2025	<u>10,000</u>
Total contributions receivable	<u>\$ 3,556,819</u>

Concentration – Four donors represent 51% of the contributions receivable balance outstanding at December 31, 2022. Three donors represent 62% of the contributions receivable balance outstanding at December 31, 2021.

Conditional contributions from government agencies – At December 31, 2022, Boys and Girls Clubs has approximately \$3,024,000 of conditional contributions from various government agencies. The contributions will be recognized as revenue when the conditions are met, which include performance of allowable activities and incurring allowable expenses.

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments at December 31 consist of the following:

	<u>2022</u>	<u>2021</u>
Equity exchange-traded funds	\$ 3,487,127	\$ 3,795,300
Fixed-income exchange-traded funds	2,566,116	2,818,026
Money market mutual funds	<u>53,773</u>	<u>395,754</u>
Total investments	6,107,016	7,009,080
Less: Investments without donor restrictions	<u>(1,490,047)</u>	<u>(1,515,600)</u>
Total investments restricted for endowment	<u>\$ 4,616,969</u>	<u>\$ 5,493,480</u>

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure 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. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2022 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity exchange-traded funds	\$ 3,487,127			\$ 3,487,127
Fixed-income exchange-traded funds	2,566,116			2,566,116
Money market mutual funds	<u>53,773</u>			<u>53,773</u>
Total investments	6,107,016			6,107,016
Money market mutual funds held as cash equivalents	<u>3,287,907</u>			<u>3,287,907</u>
Total assets measured at fair value	<u>\$ 9,394,923</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,394,923</u>

Assets measured at fair value at December 31, 2021 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity exchange-traded funds	\$ 3,795,300			\$ 3,795,300
Fixed-income exchange-traded funds	2,818,026			2,818,026
Money market mutual funds	<u>395,754</u>			<u>395,754</u>
Total investments	7,009,080			7,009,080
Money market mutual funds held as cash equivalents	<u>324,783</u>			<u>324,783</u>
Total assets measured at fair value	<u>\$ 7,333,863</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,333,863</u>

Valuation methods used for assets measured at fair value are as follows:

- *Exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the reported net asset value.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Boys and Girls Clubs believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment at December 31 consists of the following:

	<u>2022</u>	<u>2021</u>
Building and improvements	\$ 12,651,146	\$ 12,200,284
Contributed building and facility rights	2,050,000	3,800,000
Software	1,470,080	1,372,740
Land	776,401	867,060
Equipment and fixtures	763,890	594,773
Transportation equipment	530,428	530,428
Construction in progress	<u>88,017</u>	<u>16,085</u>
Total property and equipment, at cost	18,329,962	19,381,370
Accumulated depreciation	<u>(8,259,087)</u>	<u>(9,080,565)</u>
Property and equipment, net	<u>\$ 10,070,875</u>	<u>\$ 10,300,805</u>

Depreciation expense of \$928,521 and \$932,518 was recognized in the years ended December 31, 2022 and 2021.

Contributed building and facility rights – Boys and Girls Clubs is provided use of building and facility rights under the terms of two contributed facility agreements, which are being depreciated over the life of each lease. The Spring Branch facility agreement expires in 2031. The Fort Bend facility agreement expired in 2022.

NOTE 7 – CONTRIBUTIONS FROM GOVERNMENT AGENCIES

Boys and Girls Clubs is a party to contracts with federal, state, and local agencies. Should these contracts not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Sources of government grants recognized consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
U. S. Department of Education	\$ 1,501,405	\$ 871,301
U. S. Small Business Administration (Paycheck Protection Program)	901,277	1,160,357
U. S. Department of Agriculture (food commodities)	814,513	550,905
U. S. Department of Justice	477,014	663,021
U. S. Department of Treasury	237,500	915,874
U. S. Department of Health and Human Services	197,195	68,170
U. S. Department of Labor	114,473	31,189
U. S. Department of Housing and Urban Development		3,963
State and local grants	<u>772,809</u>	<u>707,747</u>
Total government grants	<u>\$ 5,016,186</u>	<u>\$ 4,972,527</u>

Grants from federal, state, and local funding sources require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable cost adjustments to final indirect cost rates. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by Boys and Girls Clubs with the terms of the contracts or changes in the final indirect cost rates.

NOTE 8 – NONFINANCIAL CONTRIBUTIONS

Boys and Girls Clubs recognized the following nonfinancial contributions:

CONTRIBUTED NONFINANCIAL ASSETS	MONETIZED OR UTILIZED IN PROGRAMS/ACTIVITIES	DONOR RESTRICTIONS	VALUATION TECHNIQUES AND INPUTS	2022	2021
Food commodities	Used in programs	Preparation of meals served in eligible schools	Fair value of food donated is based on an average fair value per standard bag of food distributed.	\$1,130,932	\$812,138
Facilities	Used in programs	None	Fair value estimated at the average price per square foot of similar properties.	\$1,009,825	\$961,804
Materials and supplies	Used in programs	None	Fair value estimated based on current rates for similar products.	\$35,576	\$117,357
Total contributed nonfinancial assets				<u>\$2,176,333</u>	<u>\$1,891,299</u>

A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration and clerical support for which no amount has been recognized in the financial statements because the donated services did not meet the criteria for recognition under generally accepted accounting principles.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Boys and Girls Clubs has a \$1,000,000 bank line of credit that expires on September 30, 2023 and bears interest at 7.25% at December 31, 2022. Advances under this agreement are due on demand, or the expiration date, if a demand has not been made. The line of credit is unsecured. There is no outstanding balance at December 31, 2022.

Boys and Girls Clubs has been named a defendant in a civil lawsuit alleging responsibility for alleged past actions of a former employee. The organization has engaged legal counsel and it is their intention to vigorously defend the litigation. Boys and Girls Clubs believes it has maintained appropriate policies and procedures to reasonably guard against such occurrences and expects the matter to be resolved without material loss to Boys and Girls Clubs.

NOTE 10 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions at December 31 consist of the following:

	2022	2021
Undesignated	\$ 12,335,655	\$ 12,540,669
Board-designated operating reserve	<u>1,657,927</u>	<u>1,523,073</u>
Total net assets without donor restrictions	<u>\$ 13,993,582</u>	<u>\$ 14,063,742</u>

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31 are restricted as follows:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Fort Bend Clubs	\$ 978,469	
Scholarships	373,082	\$ 372,288
Wharton Clubs	365,000	600,000
Capital improvements	345,434	698,781
Cristo Rey Jesuit Club	250,000	
Social and Character Development (United Way)	176,562	769,289
Galveston Clubs	150,000	100,000
Texans Teen Club	150,000	300,000
Workforce readiness	61,667	
Richmond-Rosenberg Club capital improvements	19,845	41,773
Academic success	17,500	
Healthy lifestyles	2,333	
COVID-19 outreach		84,425
Morefield Club		35,000
Total subject to expenditure for specified purpose	<u>2,889,892</u>	<u>3,001,556</u>
Subject to passage of time:		
Undepreciated contributed building and facility rights	437,650	489,299
Contributions receivable that are not purpose-restricted by donors, but which are unavailable until future periods	<u>423,833</u>	<u>235,000</u>
Total subject to passage of time	<u>861,483</u>	<u>724,299</u>
General endowment subject to spending policy and appropriation	<u>4,616,969</u>	<u>5,493,480</u>
Total net assets with donor restrictions	<u>\$ 8,368,344</u>	<u>\$ 9,219,335</u>

NOTE 12 – ENDOWMENT

Endowment net assets include a donor-restricted fund that Boys and Girls Clubs must hold in perpetuity, and whose earnings can be used for the general operations of Boys and Girls Clubs. The Foundation's Board of Trustees (the Board) is charged with preserving the corpus of the endowment, growing the total value of the endowment through investments and gifts, and financially supporting the mission and activities of Boys and Girls Clubs.

The Board has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Boys and Girls Clubs classifies the original value of gifts donated to the perpetual endowment as *net assets with donor restrictions* required to be maintained in perpetuity. The remaining portion of the donor-restricted endowment fund is classified as *net assets with donor restrictions* until those amounts are appropriated for expenditure in a manner consistent with the standards of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, Boys and Girls Clubs considers the duration and preservation of the fund in making a determination to appropriate or accumulate donor-restricted endowment funds.

Changes in net assets of the endowment funds are as follows:

	<u>WITH DONOR RESTRICTIONS</u>		<u>TOTAL</u>
	<u>ACCUMULATED NET INVESTMENT RETURN</u>	<u>REQUIRED TO BE MAINTAINED IN PERPETUITY</u>	
Endowment net assets, December 31, 2020	\$ 548,408	\$ 4,334,700	\$ 4,883,108
Contributions		10,000	10,000
Net investment return	752,771		752,771
Appropriation	<u>(152,399)</u>		<u>(152,399)</u>
Endowment net assets, December 31, 2021	1,148,780	4,344,700	5,493,480
Contributions		10,000	10,000
Net investment return	(726,211)		(726,211)
Appropriation	<u>(160,300)</u>		<u>(160,300)</u>
Endowment net assets, December 31, 2022	<u>\$ 262,269</u>	<u>\$ 4,354,700</u>	<u>\$ 4,616,969</u>

Investment and Spending Policies

The Board approves amounts to be withdrawn from the endowment each year. No distributions from the corpus or principal is allowed. The target spending rate for long-term investments is expected to range from 2.5% to 5.0%. The amount to be spent in each coming year will be calculated by multiplying the spending rate by the lesser of: 1) a rolling 60-month average of the total portfolio value, or 2) the total portfolio value at the time of distribution. The investment policy adopted by Boys and Girls Clubs was established to maximize returns without undue exposure to risk and with the following objectives: a) maintain the purchasing power of the assets and all future contributions, which requires establishing an equilibrium spending rate of up to 5%, b) applying a smoothing rule to mitigate the effects of short-term market volatility on spending using a moving average of the last five years of the portfolio's market value, or the previous year's market portfolio, whichever is less, c) to maximize return within reasonable and prudent levels of risk, and d) maintain an appropriate asset allocation based on a total return policy that is compatible with an established spending rate, while still having the potential to produce positive real returns.

NOTE 13 – RELATED PARTY TRANSACTIONS

Boys and Girls Clubs is voluntarily affiliated with Boys and Girls Clubs of America (BGCA) and pays dues to BGCA. In 2022 and 2021, these dues totaled \$29,560 and \$29,677, respectively. Dues entitle Boys and Girls Clubs to staff training and program support and the opportunity to participate in grants arranged by BGCA. Boys and Girls Clubs recognized \$592,932 and \$264,783 in contributions directly from BGCA in 2022 and 2021, respectively.

NOTE 14 – RETIREMENT PLAN

Boys and Girls Clubs sponsors a 401(k) Safe Harbor Master Plan (401(k) Plan). All Boys and Girls Clubs employees with at least one year of service and who accumulate 1,000 hours of service in a year are eligible to participate in the 401(k) Plan. Boys and Girls Clubs contributes 3% of the participant's compensation for the plan year and employees are 100% vested after three years. Boys and Girls Clubs also may make a discretionary matching contribution in any amount. Boys and Girls Clubs contributed, net of forfeitures, approximately \$189,000 and \$178,000 to the 401(k) Plan during the years ended December 31, 2022 and 2021, respectively.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 20, 2023, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.