Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Financial Statements and Supplementary Information
For the Years Ended December 31, 2017 and 2016

CONTENTS

Briggs & Veselka Co.
A PROFESSIONAL CORPORATION
Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Boys and Girls Clubs of Greater Houston, Inc., which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

HOUSTON OFFICE 713.667.9147 Tel. ▪ 713.667.1697 Fax
Nine Greenway Plaza, Suite 1700 ▪ Houston, Texas 77046 ▪ www.bvccpa.com

To the Board of Directors of
Boys and Girls Clubs of Greater Houston, Inc.
Re: Independent Auditors' Report

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boys and Girls Clubs of Greater Houston, Inc. as of December 31, 2017 and 2016, and the changes in net assets and their 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 audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedule of program services by club is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 in Schedule I is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Briggs & Veselka Co.

Briggs & Veselka Co.
Houston, Texas

July 24, 2018

BOYS AND GIRLS CLUBS OF GREATER HOUSTON, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	**$ 1,702,317**	$ 1,346,965
Contributions, pledges and other receivables, net of discount	**3,060,319**	3,636,124
Prepaid expenses	**77,837**	75,657
Property and equipment, net	**8,315,436**	8,508,788
Investments – term endowment	**351,774**	325,589
Investments – permanent endowment	**3,971,373**	3,584,781
TOTAL ASSETS	**$ 17,479,056**	$ 17,477,904
LIABILITIES AND NET ASSETS		
Accounts payable	**$ 62,071**	$ 61,069
Accrued liabilities	**134,724**	241,092
Total liabilities	**196,795**	302,161
Net assets		
Unrestricted	**8,620,203**	6,824,530
Temporarily restricted	**4,339,272**	6,028,427
Permanently restricted	**4,322,786**	4,322,786
Total net assets	**17,282,261**	17,175,743
TOTAL LIABILITIES AND NET ASSETS	**$ 17,479,056**	$ 17,477,904

The accompanying notes are an integral part of these consolidated financial statements.

BOYS AND GIRLS CLUBS OF GREATER HOUSTON, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Revenue and support				
Contributions and grants	$ 1,611,157	$ 200,000	$ -	$ 1,811,157
Allocations by United Way	266,711	86,568	-	353,279
Special events, net of donor benefits of $144,378	804,793	-	-	804,793
Federal grants	417,802	-	-	417,802
State and county grants	603,769	-	-	603,769
Membership fees	51,251	-	-	51,251
Foundation donations	945,093	220,771	-	1,165,864
In-kind contributions	1,087,923	-	-	1,087,923
Investment gain	257,054	194,487	-	451,541
Loss on sale of assets	(16,170)	-	-	(16,170)
Other income	190,502	-	-	190,502
	6,219,885	701,826	-	6,921,711
Net assets released from restrictions	2,390,981	(2,390,981)	-	-
Total revenue and support	8,610,866	(1,689,155)	-	6,921,711
Expenses				
Program services	5,572,425	-	-	5,572,425
Management and general	784,510	-	-	784,510
Fundraising	458,258	-	-	458,258
Total expenses	6,815,193	-	-	6,815,193
Change in net assets	1,795,673	(1,689,155)	-	106,518
Net assets, beginning of year	6,824,530	6,028,427	4,322,786	17,175,743
NET ASSETS, END OF YEAR	$ 8,620,203	$ 4,339,272	$ 4,322,786	$ 17,282,261

The accompanying notes are an integral part of these consolidated financial statements.

BOYS AND GIRLS CLUBS OF GREATER HOUSTON, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Revenue and support				
Contributions and grants	$ 1,197,549	$ 1,118,435	$ -	$ 2,315,984
Allocations by United Way	307,732	88,335	-	396,067
Special events, net of donor benefits of $91,428	621,776	-	-	621,776
Federal grants	155,120	-	-	155,120
State and county grants	727,450	-	-	727,450
Membership fees	74,314	-	-	74,314
Foundation donations	641,680	467,986	-	1,109,666
In-kind contributions	1,195,665	-	-	1,195,665
Investment gain	498,312	30,484	-	528,796
Loss on sale of assets	(134,852)	-	-	(134,852)
Other income	32,330	-	-	32,330
	5,317,076	1,705,240	-	7,022,316
Net assets released from restrictions	1,924,777	(1,924,777)	-	-
Total revenue and support	7,241,853	(219,537)	-	7,022,316
Expenses				
Program services	5,330,767	-	-	5,330,767
Management and general	776,611	-	-	776,611
Fundraising	711,625	-	-	711,625
Total expenses	6,819,003	-	-	6,819,003
Change in net assets	422,850	(219,537)	-	203,313
Net assets, beginning of year	6,401,680	6,247,964	4,322,786	16,972,430
NET ASSETS, END OF YEAR	$ 6,824,530	$ 6,028,427	$ 4,322,786	$ 17,175,743

The accompanying notes are an integral part of these consolidated financial statements.

BOYS AND GIRLS CLUBS OF GREATER HOUSTON, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services	Management and General	Fundraising	Total
Salaries	**$ 2,304,019**	**$ 514,289**	**$ 257,768**	**$ 3,076,076**
Employee benefits	**171,175**	**72,980**	**5,923**	**250,078**
Payroll taxes	**205,901**	**43,259**	**21,771**	**270,931**
Food and supplies	**616,622**	**1,627**	**840**	**619,089**
Interest	**5,682**	**755**	**-**	**6,437**
Program special events	**40,735**	**5,463**	**11,307**	**57,505**
Awards	**5,584**	**-**	**10**	**5,594**
Staff training	**81,714**	**9,645**	**7,471**	**98,830**
Contract services/consultants	**214,354**	**23,707**	**75,961**	**314,022**
Telephone	**36,301**	**9,926**	**1,377**	**47,604**
Accounting, audit and investment manager fees	**15,998**	**53,855**	**15,000**	**84,853**
Postage	**154**	**765**	**1,161**	**2,080**
Holiday parties	**2,725**	**-**	**48**	**2,773**
Organizational dues	**18,929**	**5,165**	**1,232**	**25,326**
Printing and supplies	**47,582**	**5,411**	**10,332**	**63,325**
Educational supplies	**27,337**	**-**	**-**	**27,337**
Physical education	**55,474**	**-**	**-**	**55,474**
Insurance	**135,284**	**6,253**	**5,770**	**147,307**
Utilities	**164,711**	**-**	**-**	**164,711**
Advertising	**-**	**-**	**14,943**	**14,943**
Rent	**306,796**	**18,186**	**17,459**	**342,441**
Janitorial and maintenance	**331,483**	**1,651**	**3,072**	**336,206**
Vehicle expense	**68,246**	**3,721**	**3,921**	**75,888**
Scholarships	**4,500**	**-**	**-**	**4,500**
Transportation	**5,724**	**-**	**-**	**5,724**
Depreciation and amortization	**705,395**	**7,852**	**2,892**	**716,139**
Totals	**$ 5,572,425**	**$ 784,510**	**$ 458,258**	**$ 6,815,193**

The accompanying notes are an integral part of these consolidated financial statements.

BOYS AND GIRLS CLUBS OF GREATER HOUSTON, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services	Management and General	Fundraising	Total
Salaries	$ 2,156,854	$ 427,847	$ 345,824	$ 2,930,525
Employee benefits	270,740	107,120	37,039	414,899
Payroll taxes	154,240	44,822	25,520	224,582
Food and supplies	729,474	706	79	730,259
Interest	18,641	3,624	-	22,265
Program special events	32,977	-	1,919	34,896
Awards	1,609	70	-	1,679
Staff training	50,021	4,901	1,765	56,687
Contract services/consultants	147,184	42,821	172,914	362,919
Telephone	53,247	8,706	4,393	66,346
Accounting, audit and investment manager fees	15,105	63,757	20,113	98,975
Postage	104	1,150	2,769	4,023
Holiday parties	3,971	-	1,741	5,712
Organizational dues	21,100	4,559	2,715	28,374
Printing and supplies	50,810	7,515	11,824	70,149
Miscellaneous	2,081	-	3,623	5,704
Educational supplies	40,919	-	-	40,919
Physical education	8,960	-	-	8,960
Insurance	141,629	12,591	12,591	166,811
Utilities	212,159	-	-	212,159
Advertising	-	-	25,302	25,302
Rent	306,622	18,997	15,075	340,694
Janitorial and maintenance	212,146	6,875	5,257	224,278
Vehicle expense	73,461	2,988	4,260	80,709
Scholarships	1,750	-	-	1,750
Bad debt expense	-	-	12,377	12,377
Depreciation and amortization	624,963	17,562	4,525	647,050
Totals	$ 5,330,767	$ 776,611	$ 711,625	$ 6,819,003

The accompanying notes are an integral part of these consolidated financial statements.

BOYS AND GIRLS CLUBS OF GREATER HOUSTON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	**$ 106,518**	$ 203,313
Adjustments to reconcile change in net assets to net cash from operating activities:		
In-kind property and equipment donations	**(385,394)**	(350,462)
Depreciation and amortization	**716,139**	647,050
Loss on sale of assets	**16,170**	134,852
Realized and unrealized gain on investments	**(330,511)**	(377,537)
Changes in operating assets and liabilities:		
Contributions, pledges and other receivables	**575,805**	(135,715)
Prepaid expenses	**(2,180)**	(15,389)
Accounts payable	**1,002**	(69,971)
Accrued liabilities	**(106,368)**	(67,257)
Net cash from operating activities	**591,181**	(31,116)
Cash flows from investing activities		
Purchases of property and equipment	**(153,563)**	(498,506)
Purchases of investments	**(1,332,258)**	(348,006)
Proceeds from sales of investments	**1,249,992**	762,152
Net cash from investing activities	**(235,829)**	(84,360)
Net change in cash and cash equivalents	**355,352**	(115,476)
Cash and cash equivalents, beginning of year	**1,346,965**	1,462,441
Cash and cash equivalents, end of year	**$ 1,702,317**	$ 1,346,965

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – FORM OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Boys and Girls Clubs of Greater Houston, Inc. and the Boys and Girls Clubs Foundation (the "Foundation") (collectively, the "Organization"), is a nonprofit organization that was formed in 1989 for the purpose of providing youth development activities in the Houston, Texas metropolitan area. All inter-entity transactions and balances have been eliminated in the accompanying consolidated financial statements.

The Organization currently operates multiple facilities within the greater Houston/Galveston, Texas area that serves predominantly youth from ages six to seventeen from lower income families, through many programs to provide academic success, healthy lifestyles and good character and citizenship. The Foundation oversees the management of permanently restricted contributions, the income from which is restricted for the operations of the Organization.

The Organization's primary sources of operating income are from individual and corporate contributions, foundation donations, government grants, special fundraising events and income from investments.

Financial Statement Presentation – Information regarding the financial position and activities of the Organization is reported in three categories as follows:

- **Unrestricted Net Assets –** represent expendable funds available for operations which are not otherwise limited by donor restrictions. Board-designated net assets consist of funds for capital and maintenance purposes.

- **Temporarily Restricted Net Assets –** consist of contributed funds subject to donor imposed restrictions related to a specific purpose or requiring a specific passage of time before the funds can be spent.

- **Permanently Restricted Net Assets –** are subject to irrevocable donor restrictions requiring the assets be maintained in perpetuity for the purpose of generating investment income to fund operations.

Cash and Cash Equivalents – For the purposes of the consolidated statements of cash flows, the Organization considers all unrestricted, highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents. Cash and cash equivalents include petty cash, demand deposits and certain money market accounts.

The Organization has certain separate bank accounts kept specifically for some of the donor restrictions totaling $561,087 and $753,085 at December 31, 2017 and 2016, respectively.

Property and Equipment – Property and equipment are stated at cost when purchased or estimated fair market value at the date of donation. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and any gain or loss is included in the consolidated statements of activities. Additions greater than $2,500 are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to earnings as incurred.

Long-Term Investments – Long-term investments are comprised of securities recorded at fair value (*see Note 4*). 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. Investment gain or loss (including realized and unrealized gains and losses) is included in the consolidated statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Investment Risk – The Organization's investments in marketable and nonmarketable investments subject the Organization to various levels of risk associated with economic, operating, and political events beyond management's control. Consequently, management's judgment as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on the Organization's long-term investments. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term could materially impact the amounts reflected in the accompanying financial statements.

Contributions – Contributions are recognized as revenue when received or unconditionally pledged. The Organization reports gifts of cash and other assets as restricted support if received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, or gifts of undeveloped land donated for a specific use are reclassified to unrestricted support when the related improvements are placed in service, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions, Pledges, and Other Receivables – Unconditional promises to give are recorded as receivables and revenue when received. Generally, no collateral or other security is required to support receivables. An allowance for doubtful accounts is established and accounts written off as needed based upon factors surrounding the credit risk of specific contributors. Management believes that all contributions, pledges and other receivables are collectible; therefore, no allowance for doubtful accounts has been recorded at December 31, 2017 and 2016.

In-Kind Contributions and Building and Facility Rights – Donated property, materials, facilities, and services 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.

The Organization has received promises for the use of buildings and land under operating leases where the lease payments are below market rates or require no monetary lease payments. At the time the agreement is made, the fair value of the building and facility rights, less any consideration paid or to be paid, are either capitalized as a fixed asset or recorded as a temporarily restricted contribution. The Organization considers unconditionally promised long-term free use of a facility, including control of the property for its estimated economic useful life as property. Accordingly, long-term facility use is capitalized at its estimated fair market value and amortized over the life of the lease (*see Note 3*). Short-term free use of facility leases are treated as an unconditional promise to give and, accordingly, the lease is recorded as a pledge receivable, discounted to its net present value. Annually, the Organization records rent expense over the life of the short-term lease (*see Note 7*). Both long-term and short-term leases are temporarily restricted and the restrictions are released over the life of the lease through amortization or rent expense, respectively.

Management's Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk – Financial instruments, which subject the Organization to concentrations of credit risk, consist principally of cash and cash equivalents, investments and receivables. The Organization places its cash and cash equivalents with high credit quality financial institutions. At times, deposits with these financial institutions may exceed insured limits; however, these amounts typically may be redeemed upon demand and, therefore, bear minimal risk. In monitoring this credit risk, the Organization periodically evaluates the stability of these financial institutions.

Functional Allocation of Expenses – The costs of providing various program and supporting services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Federal Income Tax – The Organization is exempt from federal income taxes under Section 50l(c) (3) of the Internal Revenue Code. However, the Organization is subject to taxes on unrelated business income. During 2017 and 2016, there were no unrelated business activities; thus, no provision has been made for income taxes. The Organization believes that all significant tax positions utilized by the Organization will more-likely-than-not be sustained upon examination. Tax penalties and interest, if any, would be accrued as incurred and would be classified as general and administrative expense in the consolidated statements of activities.

Advertising – Advertising costs are expensed as incurred. The total advertising costs charged to expense for 2017 and 2016 were $14,943 and $25,302, respectively.

Reclassifications – Certain accounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements. These reclassifications had no effect on previously reported results of operations or total net assets.

Recently Issued Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*, establishing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This update provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the Organization expects to receive in exchange for those goods or services and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. This guidance is effective for annual reporting periods beginning after December 15, 2018, for nonpublic entities. The Organization is currently assessing the impact this new accounting standard and its subsequent amendments will have on its financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU will require most leases to be recognized on the consolidated statements of financial position as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective beginning after December 19, 2019, for nonpublic companies. The standard may be early adopted and requires a modified retrospective transition approach to apply. The Organization is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities*. These amendments change presentation and disclosure requirements for not-for-profit (NFP) entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes; investment return; expenses; liquidity and availability of resources; and presentation of operating cash flows. Effective for not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application of the amendments is permitted. The Organization is currently evaluating the effect that the adoption of this standard would have on its financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. For nonpublic companies, ASU No. 2016-18 is effective for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption permitted. The Organization is currently evaluating the effect that the adoption of this standard would have on its financial statements and related disclosures.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by NFP organizations and business enterprises. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition. With some exceptions, the guidance is effective for annual periods beginning after December 15, 2018 or December 15, 2019 if the NFP is a resource recipient or a resource provider, respectively. The Organization is currently evaluating the effect that the adoption of this standard would have on its financial statements and related disclosures.

NOTE 2 – CONTRIBUTIONS, PLEDGES AND OTHER RECEIVABLES

Pledges receivable in more than one year are discounted to their present value at the time the pledge is made using the then current risk free interest rate (range from 1.20% to 2.47%).

Contributions, pledges and other receivables are as follows at December 31:

	2017	2016
Receivables in less than one year	**$ 1,837,015**	$ 1,352,980
Receivables in one to five years	**1,266,990**	2,374,366
Total contributions, pledges and other receivables	**3,104,005**	3,727,346
Less: discount to net present value	**(43,686)**	(91,222)
Total contributions, pledges and other receivables, net of discount	**$ 3,060,319**	$ 3,636,124

For 2017 and 2016, three donors accounted for approximately 42% and 47%, respectively, of total receivables.

NOTE 3 – PROPERTY AND EQUIPMENT

Original estimated useful lives and cost of property and equipment are as follows at December 31:

	Lives	**2017**	2016
Land		**$ 626,401**	$ 626,401
Construction in progress		**31,568**	-
Building and facility rights	20 - 30 years	**3,800,000**	3,800,000
Building and improvements	12 - 39 years	**9,021,263**	8,916,401
Equipment and fixtures	3 - 7 years	**235,586**	241,111
Transportation equipment	5 years	**465,837**	291,347
Software	3 years	**670,991**	591,582
		14,851,646	14,466,842
Less: accumulated depreciation		**(6,536,210)**	(5,958,054)
Total property and equipment, net		**$ 8,315,436**	$ 8,508,788

Depreciation and amortization expense was $716,139 and $647,050 for 2017 and 2016, respectively

Building and Facility Rights – The Organization has two long-term leases, which are capitalized and amortized over the life of the lease (*see Note 1*). The Spring Branch facility is under a 30-year lease agreement, which expires in 2031. The Fort Bend facility is under a 20-year lease, which terminates in 2022. The total amount recorded in building and facility rights for the Spring Branch and Fort Bend facilities is $3,800,000.

Amortization of the building and facility rights relating to the temporarily restricted contributions amounted to $115,024 during 2017 and 2016 and is included in net assets released from restrictions on the consolidated statements of activities.

NOTE 4 – LONG-TERM INVESTMENTS AND FAIR VALUE DISCLOSURES

Long-term investments are primarily maintained with a trust company in which a member of the Board of Directors of the Organization is also a member of the management of the trust company.

GAAP provides a framework for measuring fair value using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments and the lowest priority to unobservable inputs. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The financial instruments 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.

These inputs are summarized in the three broad levels listed below:

- **Level 1 –** Unadjusted quoted prices for identical financial instruments in active markets that the Organization has the ability to access.

- **Level 2 –** Other significant observable inputs (including quoted prices in active or inactive markets for similar financial instruments), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial instruments.

- **Level 3 –** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the financial instruments. The fair value of Level 3 financial instruments is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Following is a description of the valuation techniques used for assets measured at fair value. There have been no changes in the techniques used during 2017 and 2016.

- Money market funds, corporate equities, corporate bonds and U.S. government agencies are valued at quoted prices in active markets for identical assets.

- Mutual funds are measured at fair value as determined by third-party money managers using quoted prices in active markets for similar assets or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, although the Organization believes its valuation techniques are appropriate and consistent with other market participants, the use of different techniques or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization manages its investments by the nature of the underlying securities regardless of the ownership vehicle. Equity securities and fixed income securities in the following table include individually owned securities as well as comingled funds, mutual funds and limited partnerships investing in the specified type of equity security or fixed income security.

The fair values of investments are categorized as follows at December 31:

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Equity securities				
U.S. small cap	**$ 255,371**	**$ -**	**$ -**	**$ 255,371**
U.S. mid cap	**262,845**	**-**	**-**	**262,845**
U.S. large cap	**533,667**	**-**	**-**	**533,667**
Global	**782,717**	**-**	**-**	**782,717**
Emerging	**265,589**	**-**	**-**	**265,589**
Commodity	**226,700**	**-**	**-**	**226,700**
Energy sector	**434,523**	**-**	**-**	**434,523**
World stock	**129,955**	**-**	**-**	**129,955**

	Level 1	Level 2	Level 3	Total
Fixed income securities				
International	**177,053**	**-**	**-**	**177,053**
Intermediate term	**528,574**	**-**	**-**	**528,574**
Intermediate credit	**252,557**	**-**	**-**	**252,557**
Short-term credit	**251,778**	**-**	**-**	**251,778**
Inflation protected bond	**221,818**	**-**	**-**	**221,818**
Total investments	**$ 4,323,147**	**$ -**	**$ -**	**$ 4,323,147**
December 31, 2016				
Equity securities				
U.S. small cap	$ 231,941	$ -	$ -	$ 231,941
U.S. mid cap	227,343	-	-	227,343
U.S. large cap	439,855	-	-	439,855
Global	426,320	-	-	426,320
International	208,117	-	-	208,117
Emerging	202,515	-	-	202,515
Commodity	209,151	-	-	209,151
Energy sector	662,420	-	-	662,420
World stock	106,750	-	-	106,750
Fixed income securities				
International	139,428	-	-	139,428
Intermediate term	427,379	-	-	427,379
Domestic high yield	138,913	-	-	138,913
Intermediate credit	133,692	-	-	133,692
Short-term credit	137,707	-	-	137,707
Inflation protected bond	218,839	-	-	218,839
Total investments	$ 3,910,370	$ -	$ -	$ 3,910,370

NOTE 5 – INVESTMENT RETURN

Investment return is summarized as follows at December 31:

	2017	2016
Interest and dividend income	**$ 121,030**	$ 151,259
Realized and unrealized gain on investments	**330,511**	377,537
Advisor fees	**(23,689)**	(20,876)
Totals	**$ 427,852**	$ 507,920

NOTE 6 – LINE OF CREDIT

The Organization has a $500,000 revolving line of credit with a bank expiring on August 26, 2018. Advances under this agreement are due on demand, or the expiration date, if demand has not been made. Interest is based on changes in the Index (Wall Street Journal prime rate) plus .25% (4.75% and 4.00% at December 31, 2017 and 2016, respectively). The credit facility is unsecured. At December 31, 2017 and 2016, there were no amounts outstanding on this line of credit.

NOTE 7 – IN-KIND CONTRIBUTIONS

Individuals and other organizations have provided or donated property, materials, facilities and services to the Organization at no cost or at costs significantly below market value.

These items are recorded as in-kind contribution revenue at their estimated fair value as of December 31:

	2017	2016
Computer and software	**$ 80,077**	$ 89,462
Legal and consulting	**7,000**	27,000
Internet technology services	**25,685**	90,000
Food services	**622,899**	723,603
Building and improvements	**15,000**	261,800
Equipment and fixtures	**5,000**	1,200
Vehicles	**298,985**	-
Educational toys	**25,000**	-
Other	**8,277**	2,600
Total in-kind contributions	**$ 1,087,923**	$ 1,195,665

The Organization received free use of donated building space through a collaborative partnership with Royal Independent School District (ISD) and relocated its Brookshire Club to this larger facility. The term of the agreement is from February 10, 2014 through December 31, 2020. This short-term lease is recognized as a pledge receivable, discounted to net present value and rent expense is recorded over the life of the lease (*see Note 1*).

At December 31, 2017 and 2016, the pledges receivable from in-kind contributions were $530,628 and $707,504, respectively. At December 31, 2017 and 2016, temporarily restricted net assets and the related unamortized discount were $509,491 and $669,741 and $21,137 and $37,763, respectively (*see Note 9*). During 2017 and 2016, rental expense related to this lease was $176,876.

NOTE 8 – RETIREMENT PLAN

The Organization provides a defined contribution retirement plan under the Pension Trust of the Boys and Girls Clubs of America. All employees with at least one year of service who accumulate 1,000 hours of service in a year are eligible to participate in the plan. Employees are vested under the following graduated schedule: employees with less than two years of service are -0-% vested, employees with two years of service are 20% vested, employees with three years of service are 40% vested, employees with four years of service are 60% vested, employees with five years of service are 80% vested, and employees with six or more years of service are 100% vested.

The Organization contributes 10% of eligible employee salaries to the plan. Effective January 1, 2017, the Organization amended its adoption agreement under its Retirement Plan to reduce contributions from 10% to 5%. During 2017 and 2016, the Organization made and recorded as expense benefit plan contributions, net of forfeitures, amounting to $78,811 and $177,994, respectively. Contributions from the employees are not allowed.

Effective January 1, 2018, the Organization began sponsoring a 401(k) Safe Harbor Master Plan (the "401(k) Plan"). The Organization may make a discretionary matching contribution and employees are 100% vested after three years.

Due to better information that became available, due to the Organization's change in its service provider and type of Plan effective January 1, 2018, the Organization determined that its estimated accrued pension liability, net of forfeitures, should be reduced to zero at December 31, 2017. Accordingly, the Organization elected to write off the amount of the previously estimated pension liability of approximately $167,000 to other income on the consolidated statement of activities in 2017. As a result, at December 31, 2017 and 2016, the Organization's estimated accrued pension liability amounted to $-0- and $154,000, respectively.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

	2017	2016
Operating endowment fund	**$ -**	$ 831,834
Building and facility rights	**949,395**	1,064,419
Royal ISD Club	**509,491**	669,741
Earnings on permanently restricted endowment	**194,487**	-
Richmond-Rosenberg Club	**105,488**	122,648
Fort Bend County operations	**400,001**	863,201
Social and character development (United Way)	**86,568**	88,335
Scholarships	**17,005**	16,945
Combined growth campaign		
Houston Texans Teen Club	**1,518,976**	1,876,155
Purpose restricted	**557,861**	466,714
Other	**-**	28,435
Totals	**$ 4,339,272**	$ 6,028,427

During 2013, the Organization received pledges of $3,025,000 restricted for operations for the new club and other clubs in the Fort Bend County. These pledges are time restricted and are released over the period of 2013 through 2018. $475,000 and $550,000 was released in accordance with the Organization's policy during 2017 and 2016, respectively. At December 31, 2017 and 2016, temporarily restricted net assets related to these pledges were $400,001 and $863,201, respectively.

In November 2015, the Organization launched a combined capital and operational campaign (combined growth campaign) to have a significant impact upon the quality of life for Houston's youth with a goal to increase the number of youth served and the number of youth who attend clubs each day. The goal is to establish new clubs to serve youth across the Greater Houston region.

Total contributions and grants received related to this campaign during 2017 and 2016 were $155,000 and $1,557,896, respectively. At December 31, 2017 and 2016, temporarily restricted net assets related to this campaign totaled $2,076,837 and $2,342,869, respectively.

Combined growth campaign contributions to be received in future periods are assumed to be time restricted unless the donor explicitly states that the contribution is to support the current period. These temporarily restricted net assets are either time or purpose restricted as specified by the donor and are released as the related time or purpose restriction is met.

During 2017, the time restriction on the Operating Endowment passed which allowed for the funds to be released (*see Note 11*). In lieu of the temporary restriction, the Board of Directors passed a resolution which requires the Organization maintain a minimum daily cash balance of $600,000 in operating cash and cash equivalents. Board Approval must be obtained prior to the operating cash balance dropping below $600,000.

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are as follows at December 31:

	2017	2016
Foundation endowment	**$ 4,312,786**	$ 4,312,786
Scholarship	**10,000**	10,000
Totals	**$ 4,322,786**	$ 4,322,786

NOTE 11 – ENDOWMENT FUNDS

The Organization's endowment funds consist of an operating endowment classified as temporarily restricted and a permanently restricted endowment managed by the Foundation, both of which were established to support the operations of the Organization through earnings and, in the case of the temporarily restricted endowment, through the spending of the endowment. There are no donor restrictions on the earnings on either fund. The temporarily restricted operating endowment funds were released in full during 2017 (*see Note 9*).

The Organization 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 absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets.

The remaining portion of the donor-restricted endowment fund including earnings that have not been explicitly designated as unrestricted by the donor that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the endowment in a manner consistent with the standard of prudence prescribed by TUPMIFA.

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

- the duration and preservation of the funds;
- the purposes of the Organization and the donor-restricted endowment fund;

- general economic conditions;
- the possible effect of inflation and deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the Organization; and
- the investment policies of the Organization.

Spending Policy – The Organization adopted investment and spending policies for its permanent endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. The Spending Policy, as adopted by the Board of Directors, provides that the Investment Committee of the Foundation's Board of Directors shall annually recommend a spending rate to be approved by the Foundation's Board of Directors.

During 2017 and 2016, the Foundation Board approved a spending rate of 4% of the Foundation's beginning net assets. (The Foundation is a separate organization under the control of the Boys and Girls Clubs of Greater Houston, Inc. as set forth in *Note 1*.)

For 2017 and 2016, the Foundation Board approved distributions in the amount of $154,000 and $170,000, respectively.

Investment Objectives – To achieve its investment objectives, the Organization retains an investment manager to pursue a management strategy to maximize the total return (income and appreciation) over a variety of capital market cycles. Long-term investments are primarily maintained with a trust company in which a member of the Board of Directors of the Organization is also a member of management of the trust company. The Finance Committee oversees the results of the manager and reports periodically to the Board of Directors.

The primary long-term financial objective is to preserve the real (inflation-adjusted) purchasing power of the assets and income after accounting for spending, inflation, and costs of portfolio management. Performance is measured over rolling periods of at least five years to encompass several market cycles.

The long-term objective is to earn a total rate of return that exceeds the spending rate plus long-term inflation less the costs of managing the investment fund.

The portfolio may be invested in a diversified portfolio of equities listed on a recognized national stock exchange; fixed income securities; real estate investment trusts (REIT)s, real assets relating to energy commodities or metals and alternative investments which include diversified asset funds and absolute return funds. The funds are required to be diversified both by asset class and, within asset classes, by economic sector, industry, and market capitalization (size) and alternative investments cannot exceed 30% of the portfolio. Investment proceeds may be temporarily invested in cash and cash equivalents within the fund.

During 2008, the Organization conducted a fundraising campaign in which it raised approximately $1,700,000 to provide an endowment for the operating needs of the Organization over a period of approximately 10 years. This endowment is classified as temporarily restricted net assets.

Due to the shorter term of this endowment, the Board of Directors elected to administer this fund under the direction of its Finance Committee rather than through third-party investment advisers. The Finance Committee's investment policy requires these funds to be invested as follows: approximately 70% in short-term income funds and approximately 30% in equity funds. During 2017, the time restriction on the endowment passed and the funds were released (*see Note 9*).

The following table reports a reconciliation of the beginning and ending balance of the Organization's endowment funds:

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
Endowment net assets, December 31, 2015	$ 4,322,786	$ 801,355	$ (350,999)	$ 4,773,142
Investment return				
Investment income	-	30,479	151,259	181,738
Net realized and unrealized gain	-	-	347,058	347,058
Management fees	-	-	(20,876)	(20,876)
Total investment return	-	30,479	477,441	507,920
Appropriation of permanently restricted net assets	-	-	(170,000)	(170,000)
Endowment net assets, December 31, 2016	4,322,786	831,834	(43,558)	5,111,062
Investment return				
Investment income	-	**104,187**	**-**	**104,187**
Net realized and unrealized gain	-	**267,989**	**43,558**	**311,547**
Management fees	-	**(23,689)**	**-**	**(23,689)**
Total investment return	-	**348,487**	**43,558**	**392,045**
Release from time restricted net assets	-	**(831,834)**	**-**	**(831,834)**
Appropriation of restricted net assets (*see Note 9*)	-	**(154,000)**	**-**	**(154,000)**
Endowment net assets, December 31, 2017	**$ 4,322,786**	**$ 194,487**	**$ -**	**$ 4,517,273**

In connection with the investment objectives required under the standards of TUPMIFA, the Organization is required to fund accumulated net investment losses of Endowment investments from its general unrestricted net assets. At the end of 2017 and 2016, the Organization had temporarily funded $-0- and $43,558 of the Endowment's accumulated investment losses. During 2017 and 2016, $154,000 and $170,000, respectively, were appropriated and distributed from the Foundation to the Organization.

FASB Accounting Standards Codification 958-205-45-29 notes that appropriations from an endowment fund do not reduce the amounts in permanently restricted net assets. Therefore, because the Organization had no temporarily restricted net assets when the amount was appropriated, the appropriation reduced unrestricted net assets.

On April 8, 2015, the Organization's executive committee approved a loan from the Foundation to the Boys and Girls Clubs of Greater Houston, Inc. A note payable was executed on the same day to the Foundation for $450,000, which bore interest equal to the London Interbank Offered Rate plus 2.75%. The proceeds of the Note were funded by the permanent endowment investment and were used to cover construction costs required for the completion of the Richmond Club. The Note is eliminated in these financial statements.

Payments of accrued interest under the Note were payable the last day of each calendar quarter-end and on the maturity date. The outstanding principal amounted to $450,000 at December 31, 2016. During April 2017, the remaining principal was paid on the Note (*see Note 14*).

NOTE 12 – FEDERAL, STATE AND COUNTY GRANTS

The Organization receives grant funding from federal, state and county sources to operate its clubs. The grants may contain restrictions that the money be spent on specific programs. The Organization received $1,021,571 and $882,570 in contributions from federal, state and county grant sources for 2017 and 2016, respectively. Grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 13 – OPERATING LEASES

In June 2015, the Organization executed a two-year lease agreement for a 14,000 square foot facility with a monthly base rent of $4,230 and additional monthly rents for operating expenses incurred by the Landlord. Through June 2016, the Organization's share of operating expenses is estimated to be $4,500 per month. The operating expenses allocated to the Organization by the Landlord are re-evaluated annually. In June 2016, the Organization exercised its option to extend the lease maturity date to June 2019, with essentially the same terms and monthly base rents of $4,653. The Company also rents copier equipment. Total facility and equipment rent expense, including in-kind rent expenses (*see Note 7*) during 2017 and 2016 was $183,613 and $173,798, respectively.

Future minimum payments at December 31, 2017 for these leases were:

For the Year Ended December 31,	Amount
2018	$ 55,836
2019	27,918
Total	$ 83,754

NOTE 14 – RELATED PARTY TRANSACTIONS

The Organization is voluntarily affiliated with Boys and Girls Clubs of America, Inc. (BGCA). In addition to participating in the Pension Trust discussed in *Note 8*, the Organization paid dues to BGCA amounting to $18,298 and $16,363 during 2017 and 2016, respectively.

Dues entitle the Organization to staff training and program support and the opportunity to participate in grants arranged by BGCA. During 2017 and 2016, the Organization received $350,541 and $312,124, respectively, in grants directly from BGCA.

During 2017 and 2016, the Organization received cash donations from members of the Board of Directors amounting to $300,102 and $292,500, respectively. At December 31, 2017 and 2016, pledges receivable relating to members of the Board of Directors, on an undiscounted basis, approximated $533,738 and $698,988, respectively.

In 2015, the Organization executed a $450,000 Note with the Foundation (*see Note 11*). The balance on this note was paid during 2017.

NOTE 15 – SUBSEQUENT EVENTS

On February 13, 2018, the Organization entered into a management agreement (the "Agreement") with the Boys and Girls Club of Wharton, Inc. (Wharton). The Agreement term is five months and ends on August 31, 2018. Under the Agreement, the Organization agrees to provide general and administrative, operational, management and advisory support to Wharton for a $3,000 monthly fee.

The Organization has evaluated subsequent events through July 24, 2018, the date the financial statements were available to be issued. No other subsequent events occurred which require adjustment or disclosure to the financial statements at December 31, 2017.

BOYS AND GIRLS CLUBS OF GREATER HOUSTON, INC.
SCHEDULE I – SCHEDULE OF PROGRAM SERVICES BY CLUB
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Havard	**$ 564,536**	$ 622,423
Spring Branch	**581,022**	625,124
Fort Bend	**536,402**	477,466
Holthouse	**339,517**	315,421
Morefield	**543,056**	425,936
Stafford	**401,551**	406,387
Johnny Mitchell	**543,999**	529,043
Brookshire/Royal ISD	**548,270**	545,907
Richmond-Rosenberg Club	**608,479**	582,513
Buffalo Creek	**213,322**	232,457
Houseman	**109,178**	135,776
KIPP Sunnyside/Treasure Forest	**161,104**	171,055
Allen Parkway	**237,785**	241,233
Houston Texans Teen Club	**184,204**	20,026
Total program services	**$ 5,572,425**	$ 5,330,767

See independent auditors' report.