

**BOYS AND GIRLS COUNTRY
OF HOUSTON, INC.**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Boys and Girls Country of Houston, Inc.
Hockley, Texas

We have audited the accompanying financial statements of Boys and Girls Country of Houston, Inc. (a not-for-profit organization), which comprise the statement of financial position as of September 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys and Girls Country of Houston, Inc. as of September 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Report on Summarized Comparative Information

We have previously audited the 2019 financial statements of Boys and Girls Country of Houston, Inc. and we expressed an unmodified audit opinion on those financial statements in our report dated June 25, 2020. In our opinion, the summarized comparative information presented herein for the year ended September 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harper & Pearson Company, P.C.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
April 9, 2021

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2020 AND 2019

ASSETS	<u>2020</u>	<u>2019</u>
Unrestricted cash	\$ -	\$ -
Restricted cash	138,837	288,910
Total cash	<u>138,837</u>	<u>288,910</u>
Marketable securities	213,070	64,960
Receivables		
Contributions receivable, net	930,209	1,252,660
Other receivables	78,419	370,874
Prepaid expenses and other assets	212,921	312,683
Assets held for sale, net	522,781	581,075
Interest in net assets of the Endowment Fund	22,801,281	20,733,717
Property and equipment, net	<u>9,227,012</u>	<u>9,551,621</u>
 TOTAL ASSETS	 <u>\$ 34,124,530</u>	 <u>\$ 33,156,500</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 238,218	\$ 318,241
Advance payable, Endowment Fund	1,000,000	1,000,000
Note payable, PPP	770,100	-
Accrued salaries and benefits	177,691	197,741
Deferred revenue	449,401	1,133,208
Funds held for residents	<u>94,582</u>	<u>64,626</u>
 TOTAL LIABILITIES	 <u>2,729,992</u>	 <u>2,713,816</u>
 NET ASSETS		
Net assets without donor restrictions	9,550,303	9,443,435
Net assets with donor restrictions	<u>21,844,235</u>	<u>20,999,249</u>
 TOTAL NET ASSETS	 <u>31,394,538</u>	 <u>30,442,684</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 34,124,530</u>	 <u>\$ 33,156,500</u>

See accompanying notes.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020
WITH SUMMARY TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2019

	2020			September 30, 2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
OPERATING REVENUES				
Contributions	\$ 2,184,473	\$ 290,232	\$ 2,474,705	\$ 2,395,124
Special events	2,563,424	-	2,563,424	3,169,341
Reimbursement for care	129,298	-	129,298	133,825
Grants from the Endowment Fund	300,000	-	300,000	750,000
Other income	<u>145,723</u>	<u>-</u>	<u>145,723</u>	<u>175,423</u>
Total Operating Revenue	5,322,918	290,232	5,613,150	6,623,713
NET ASSETS RELEASED FROM RESTRICTIONS				
Capital expenditures	1,057,150	(1,057,150)	-	-
Expenditures for program purposes	405,660	(405,660)	-	-
Expiration of time restrictions	<u>50,000</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>
Total Revenues and Support	<u>6,835,728</u>	<u>(1,222,578)</u>	<u>5,613,150</u>	<u>6,623,713</u>
EXPENSES				
Program services	5,169,669	-	5,169,669	5,389,695
Management and general	443,301	-	443,301	438,851
Fund raising	671,363	-	671,363	593,833
Direct donor benefit costs	<u>444,527</u>	<u>-</u>	<u>444,527</u>	<u>408,953</u>
Total Expenses	<u>6,728,860</u>	<u>-</u>	<u>6,728,860</u>	<u>6,831,332</u>
CHANGE IN NET ASSETS FROM OPERATIONS	106,868	(1,222,578)	(1,115,710)	(207,619)
CHANGE IN INTEREST IN ENDOWMENT FUND	<u>-</u>	<u>2,067,564</u>	<u>2,067,564</u>	<u>1,177,523</u>
CHANGE IN NET ASSETS	106,868	844,986	951,854	969,904
NET ASSETS, BEGINNING OF YEAR	<u>9,443,435</u>	<u>20,999,249</u>	<u>30,442,684</u>	<u>29,472,780</u>
NET ASSETS, END OF YEAR	<u>\$ 9,550,303</u>	<u>\$ 21,844,235</u>	<u>\$ 31,394,538</u>	<u>\$ 30,442,684</u>

See accompanying notes.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020
WITH SUMMARY TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2019

	2020					September 30, 2019 Total
	Program Services		Management and General	Fund Raising	Total	
	Residential	College and Career				
Salaries and employee benefits	\$ 2,953,264	\$ 437,890	\$ 269,138	\$ 412,140	\$ 4,072,432	\$ 3,861,767
Depreciation	473,355	72,318	46,021	65,744	657,438	677,022
Utilities and telephone	214,653	32,795	20,869	29,813	298,130	297,056
Maintenance and operation of properties and vehicles	226,024	41,064	13,027	18,610	298,725	371,374
Resident activities and education support	64,647	65,895	-	-	130,542	319,035
Insurance	180,602	27,592	17,558	25,084	250,836	239,935
Food and supplies	116,690	29,091	-	-	145,781	108,462
Staff recruiting and training costs	65,715	13,301	3,128	5,670	87,814	109,778
Direct mailings and newsletter	248	62	-	51,964	52,274	56,277
Office supplies and postage	38,509	5,883	20,461	34,303	99,156	129,258
Resident medical and dental care	15,577	574	-	-	16,151	23,282
Bad debt expense	-	-	-	20,000	20,000	15,000
Interest Expense	-	-	3,650	-	3,650	-
Ranch operations	17,905	-	-	-	17,905	22,782
Professional fees	65,683	10,332	49,449	8,035	133,499	191,351
Total Expenses	<u>\$ 4,432,872</u>	<u>\$ 736,797</u>	<u>\$ 443,301</u>	<u>\$ 671,363</u>	6,284,333	6,422,379
Direct donor benefit costs					<u>444,527</u>	<u>408,953</u>
Total					<u>\$ 6,728,860</u>	<u>\$ 6,831,332</u>

See accompanying notes.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 951,854	\$ 969,904
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	657,438	677,022
Donated property and equipment	(13,750)	(487,094)
Loss on disposal of property and equipment	2,600	-
Realized and unrealized gain on marketable securities	(470)	(317)
Change in interest in net assets of Endowment Fund	(2,067,564)	(1,177,523)
Change in operating assets and liabilities:		
Contributions receivable, net	303,390	53,060
Other receivables	292,455	10,167
Prepaid expenses and other assets	99,762	(153,477)
Accounts payable and accrued liabilities	(80,023)	(4,066)
Accrued salaries and benefits	(20,050)	123,921
Deferred revenue	(683,807)	79,061
Funds held for residents	29,956	27,392
Total adjustments	<u>(1,480,063)</u>	<u>(851,854)</u>
Net cash (used) provided by operating activities	<u>(528,209)</u>	<u>118,050</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(850,686)	(514,573)
Proceeds from sales of marketable securities	703,046	500,318
Purchase of property and equipment	<u>(263,385)</u>	<u>(479,822)</u>
Net cash used by investing activities	<u>(411,025)</u>	<u>(494,077)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for acquisition of property and equipment	19,061	491,998
Borrowings on note payable, PPP	<u>770,100</u>	<u>-</u>
Net cash provided by financing activities	<u>789,161</u>	<u>491,998</u>
NET CHANGE IN CASH	(150,073)	115,971
CASH AT BEGINNING OF YEAR	<u>288,910</u>	<u>172,939</u>
CASH AT END OF YEAR	<u>\$ 138,837</u>	<u>\$ 288,910</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cost of property and equipment retired	<u>\$ 166,897</u>	<u>\$ 956,250</u>
Cost of property and equipment reclassified as held for sale	<u>\$ -</u>	<u>\$ 2,022,646</u>

See accompanying notes.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Boys and Girls Country of Houston, Inc. (Boys and Girls Country), a Texas not-for-profit organization, is a licensed childcare residential facility that provides 24-hour care for children from families in crisis between the ages of 5 and 18, primarily from the Greater Houston area (Residential Services Program). Boys and Girls Country also provides a residential care and scholarship program for residents aged 18 or older (College & Career Program).

Boys and Girls Country of Houston Endowment Fund, Inc. (the Endowment Fund), a financially related organization, was created in 1986 to seek support for and hold assets on behalf of Boys and Girls Country. The Endowment Fund has a separate board of directors and Boys and Girls Country does not exercise control over the Endowment Fund, therefore consolidated financial statements are not required but rather the interest in the net assets of the Endowment Fund are included as a single asset in the accompanying statements of financial position. The Endowment Fund transfers assets to Boys and Girls Country when authorized by the Endowment Fund Board of Directors.

Comparative Financial Information - The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States (GAAP). Accordingly, such information should be read in conjunction with Boys and Girls Country's financial statements for the year ended September 30, 2019, from which the summarized information was derived.

Management's Estimates - The preparation of financial statements in conformity with generally accepted accounting principles (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 and the allocation of expenses among various functions during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit and Market Risk - Financial instruments that subject Boys and Girls Country to concentrations of credit risk consist principally of cash and marketable securities. Boys and Girls Country places its cash with high credit quality financial institutions. At times, such amounts may exceed insured limits; however, these amounts typically may be redeemed upon demand and, therefore, bear minimal risk. In monitoring this credit risk, Boys and Girls Country periodically evaluates the stability of these financial institutions.

Marketable securities subject Boys and Girls Country 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 Boys and Girls Country's marketable securities. Due to the level of risk associated with marketable securities and the level of uncertainty related to changes in the value of marketable securities, 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.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Marketable Securities - Marketable securities are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income or loss is included in other income in the statement of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Contributions Receivable - Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted, if material, to estimate the present value of future cash flows. Estimated discounts at September 30, 2020 and 2019 were considered immaterial. An allowance for doubtful accounts is established and accounts written off as needed based upon factors surrounding the credit risk of specific donors. At September 30, 2020 and 2019, contributions receivable from two donors represented 84% and 62% of gross contributions receivable, respectively.

Other Receivables - Other receivables consist of amounts due primarily from the Endowment Fund and donor contributions and other revenues made through third party credit card processors. Generally, no collateral or other security is required to support other receivables.

Assets Held for Sale - Management has committed to a plan to sell two tracts of land and the related buildings and improvements. Accordingly, the cost and accumulated depreciation of these assets was reclassified as assets held for sale during fiscal 2019. Boys and Girls Country continues to use the property for operations and recorded \$58,294 and \$51,168 of depreciation during fiscal 2020 and 2019, respectively, and in fiscal 2020 wrote off a fully depreciated item with an original cost of \$26,500. Due to the COVID-19 pandemic in 2020, and other events, the sales did not close as quickly as anticipated, and are now expected to be finalized by September 30, 2021. (See Note L)

Property and Equipment - Property and equipment is recorded at cost if purchased or at fair value at the date of gift if donated. Depreciation is calculated using the straight-line method over estimated useful lives of 5 to 30 years for buildings and improvements and 3 to 8 years for furniture and equipment and transportation equipment.

Expenditures for additions, major renewals, and betterments are capitalized and expenditures for maintenance and repairs are charged to earnings as incurred.

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 statement of activities.

Interest in Net Assets of the Endowment Fund - Interest in net assets of the Endowment Fund is recorded at the fair value of the underlying assets of the Endowment Fund as reported in the audited financial statements of the Endowment Fund. As further discussed in Note F, changes in the value of the Endowment Fund from year to year are recorded as an increase or decrease in net assets with donor restrictions in the statements of activities.

Deferred Revenue - Deferred revenue consists primarily of funds and contributions received for attendance at events to be held in the future.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Net Asset Classification - Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- Net assets without donor restrictions include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- Net assets with donor restrictions include contributions restricted by the donor for specific purposes or time periods. When the purpose is accomplished or the time restriction is met, net assets with donor restrictions are released to net assets without donor restrictions. Net assets with donor restrictions also include Boys and Girls Country's interest in net assets with donor restrictions of the Endowment Fund and earnings on the net assets without donor restrictions that were transferred by Boys and Girls Country to the Endowment Fund. (See Note F).

Net assets with donor restrictions also includes contributions received by the Endowment Fund whereby donors have restricted the contribution in perpetuity. The related investment income is available to the Endowment Fund to distribute to Boys and Girls Country to support various activities.

Contributions - Contributions are recognized as revenue when an unconditional commitment is received from the donor. Conditional contributions are included in revenue when the conditions are substantially met. Boys and Girls Country recognizes gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

In-Kind Contributions - Donated assets, materials and use of facilities are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related asset or expense is recorded as the item is used. Contributions of services which would typically need to be purchased, if not provided by donation, are recognized either when services received create or enhance nonfinancial assets or are provided by individuals possessing specialized skills. In 2020 and 2019, \$13,750 and \$487,094 of donated property and equipment and \$38,098 and \$5,997 of donated goods and services were recorded as in-kind contributions, assets and program expenses, respectively.

Reimbursement for Care - Boys and Girls Country requests reimbursements for the care of certain children from Texas Department of Family and Protective Services, Social Security and families. Due to the uncertainty of collection, such reimbursements are recognized as revenue when the funds are received.

Functional Expenses - Certain expenses benefit multiple programs as well as support functions and are allocated to the functional categories as follows:

- Salaries and related benefits are allocated based on job position and time allocations reported by employees.
- Other expenses not directly identifiable to a specific function are allocated based on salary percentages.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Income Taxes - Boys and Girls Country is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, Boys and Girls Country is subject to taxes on unrelated business income. No unrelated business income was generated in fiscal 2020 and 2019.

Boys and Girls Country believes that all significant tax positions utilized by Boys and Girls Country will more likely than not be sustained upon examination. As of September 30, 2020, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2017 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as management and general expense in the statement of activities.

Concentrations - Approximately 42% and 43% of total contributions and special events revenue were derived from a single annual event, the Heritage Awards Dinner, during fiscal 2020 and 2019, respectively.

Reclassification - Assets held for sale amounting to \$175,000 have been reclassified to property and equipment, net in the 2019 statement of financial position to conform to the current year's presentation.

NOTE B LIQUIDITY AND AVAILABILITY

Boys and Girls Country manages its cash flows through the use of an annual budget that is created by Management and approved by its Board of Directors. Boys and Girls Country generally relies on proceeds from its fund-raising events, contributions from different constituencies, grants from the Endowment and other sources of revenue to fund its ongoing operations. As described in Note F, each year the Endowment may grant to Boys and Girls Country up to five percent of its net assets (approximately \$1,140,000 and \$1,036,000 at September 30, 2020 and 2019, respectively) based on a request from Boys and Girls Country. Grant funds are drawn by Boys and Girls Country when needed to provide liquidity for operations. From time to time, Boys and Girls Country may supplement cash flow by utilizing cash restricted for the cottage rebuild program received from donors in advance of the cottage rebuild expenditures. Boys and Girls Country seeks to maximize the return on excess funds through investments in marketable securities for its own account. When needed, these marketable securities are liquidated to fund operations.

In fiscal 2020, as further discussed in Notes G and H, Boys and Girls Country obtained a loan under the Paycheck Protection Program and has available a line of credit amounting to \$300,000.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

NOTE B LIQUIDITY AND AVAILABILITY (CONTINUED)

Financial assets available to fund subsequent year operations are as follows at September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash	\$ 138,837	\$ 288,910
Marketable securities	213,070	64,960
Contributions receivable	930,209	1,252,660
Other receivables	<u>78,419</u>	<u>370,874</u>
	1,360,535	1,977,404
Less Restricted Assets (Note J)	<u>(1,383,903)</u>	<u>(2,435,724)</u>
Assets Available (Deficit)	<u>\$ (23,368)</u>	<u>\$ (458,320)</u>

NOTE C CONTRIBUTIONS RECEIVABLE, NET

Contributions at September 30, 2020 and 2019 are receivable as follows:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 182,847	\$ 633,863
Receivable in one to five years	<u>765,000</u>	<u>654,500</u>
	947,847	1,288,363
Allowance for doubtful accounts	<u>(17,638)</u>	<u>(35,703)</u>
	<u>\$ 930,209</u>	<u>\$ 1,252,660</u>

NOTE D FAIR VALUE DISCLOSURES

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 instrument's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. These inputs are summarized in the three broad levels listed below:

Level 1 – Unadjusted quoted prices for identical financial instruments in active markets that Boys and Girls Country has the ability to access.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

NOTE D FAIR VALUE DISCLOSURES (CONTINUED)

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.

The fair values of marketable securities are categorized as follows September 30, 2020 and 2019:

	2020			
	Level 1	Level 2	Level 3	Total
Interest in net assets of the Endowment Fund	\$ -	\$ 22,801,281	\$ -	\$ 22,801,281
U.S. government securities	200,555	-	-	200,555
Money market mutual fund	<u>12,515</u>	<u>-</u>	<u>-</u>	<u>12,515</u>
	<u>\$ 213,070</u>	<u>\$ 22,801,281</u>	<u>\$ -</u>	<u>\$ 23,014,351</u>

	2019			
	Level 1	Level 2	Level 3	Total
Interest in net assets of the Endowment Fund	\$ -	\$ 20,733,717	\$ -	\$ 20,733,717
Money market mutual fund	<u>64,960</u>	<u>-</u>	<u>-</u>	<u>64,960</u>
	<u>\$ 64,960</u>	<u>\$ 20,733,717</u>	<u>\$ -</u>	<u>\$ 20,798,677</u>

Interest in net assets of the Endowment Fund is reported at the fair value of the net assets of the Endowment Fund as of September 30, 2020 and 2019 and is based upon the fair value of the underlying assets which consist primarily of actively traded equity securities, corporate bonds and U.S. government securities. The investments of the Endowment Fund also include two limited partnership funds reported by the Endowment Fund using the net asset value per share (NAV) practical expedient. At September 30, 2020 and 2019, the value of the limited partnerships was \$959,198 and \$823,509, respectively.

There have been no changes in the techniques used to determine fair value during fiscal 2020 and 2019. 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 Boys and Girls Country 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.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

NOTE E PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30, 2020 and 2019:

	2020	2019
Land and improvements	\$ 4,671,388	\$ 4,585,930
Buildings and improvements	12,423,807	11,728,637
Furniture and equipment	1,513,241	1,489,644
Transportation equipment	664,016	690,781
Livestock	59,350	56,250
Construction in progress	6,700	650,522
	19,338,502	19,201,764
Less accumulated depreciation	(10,111,490)	(9,650,143)
	\$ 9,227,012	\$ 9,551,621

Since 2015, Boys and Girls Country has entered into a series of agreements with HomeAid Houston and various builders for the construction of replacement cottages under its Cottage Rebuild Program. Each agreement requires the builder to build a cottage for which approximately half of the cost will be paid by Boys and Girls Country and approximately half of the cost will consist of donated materials and services. Boys and Girls Country is required to make a donation to HomeAid of five percent of the estimated value of the donated materials and services which is paid prior to completion of the cottage.

In addition, Boys and Girls Country must use each cottage for ten years from the date of completion or reimburse HomeAid Houston ten percent of the value of the donated materials and services for each year that a cottage is not used for the mission of the organization. Boys and Girls Country intends to utilize each cottage for the full term of each agreement, thus unexpired contingent liabilities have not been recorded.

The status of each agreement and the amount of Boys and Girls Country's contingent liability for each project is as follows:

Joanne Watford Cottage

The cottage was completed on November 30, 2016 and included \$335,000 in donated materials and services. At September 30, 2020, the contingent liability to HomeAid Houston was approximately \$204,000.

Hamill Cottage

This cottage was completed on March 21, 2018 at a total cost of \$978,408, including \$512,000 of donated materials and services. At September 30, 2020, the contingent liability to HomeAid Houston was approximately \$384,000.

NOTE E PROPERTY AND EQUIPMENT (CONTINUED)

Woodforest Cottage

This cottage was completed on September 30, 2020 at a total cost of \$723,359, including approximately \$158,000 of donated materials and services. In accordance with its agreement, Boys and Girls Country must make a donation to HomeAid Houston of \$7,875 which is included in accounts payable and accrued liabilities at September 30, 2020. At September 30, 2020, the contingent liability to HomeAid Houston was approximately \$158,000.

NOTE F THE ENDOWMENT FUND

In prior years, Boys and Girls Country had transferred a total of \$2,594,360 unrestricted, excess funds to the Endowment Fund to invest. Earnings on this transfer accrue to the Endowment Fund and are reported as donor restricted for the general support of Boys and Girls Country. No unrestricted transfers were made during fiscal 2020 and 2019. These unrestricted funds are invested with the other Endowment Fund assets but may upon approval from the Endowment Board of Directors be utilized by Boys and Girls Country to fund its activities. In addition, Boys and Girls Country may request grants from the donor restricted assets of the Endowment Fund to support the specific activities for which they were intended. In fiscal 2020 and 2019, grants amounting to \$300,000 and \$750,000, respectively, were requested and approved.

The transactions and balances of the net assets of the Endowment Fund are reflected as net assets with donor restrictions in the accompanying financial statements.

In September 2011, Boys and Girls Country entered into a Service Agreement with the Endowment Fund whereby the Endowment Fund reimburses Boys and Girls Country for payroll and other costs benefiting the Endowment Fund. During fiscal 2020 and 2019, Boys and Girls Country charged the Endowment Fund \$38,487 and \$42,031, respectively, for fund-raising services and included this amount in other income. In addition, during fiscal 2020 and 2019, Boys and Girls Country provided to the Endowment Fund in-kind accounting and management services valued at \$30,825 and \$29,000, respectively. At September 30, 2020 and 2019, other receivables included unremitted grants of \$50,000 and \$340,000, respectively, and unreimbursed salaries and other expenses of \$27 and \$13,218, respectively.

In May 2017, the Endowment Fund Board approved a working capital loan to Boys and Girls Country up to one million dollars (\$1,000,000) to cover construction payments for the Cottage Rebuild Project and other needs. Outstanding advances amounting to \$1,000,000 at September 30, 2020 and 2019 are non-interest bearing and will be repaid in the future when Cottage Rebuild Project pledge payments are received or through reductions of future Endowment grants awarded to Boys and Girls Country.

NOTE G LINE OF CREDIT

In May 2020, Boys and Girls Country entered into a line of credit agreement with a bank which provides for borrowings up to \$300,000 through November 15, 2021. Interest at 3.25% per annum is calculated from the date of each advance until repayment of advance or maturity, whichever occurs first. Loans made under the Agreement must be paid in full and "rested" for 30 days annually beginning February 28, 2021. The agreement is collateralized by all unrestricted receivables, and guaranteed by the Endowment Fund. At September 30, 2020 there were no outstanding borrowings under this agreement.

NOTE H PAYCHECK PROTECTION PROGRAM

On April 10, 2020, Boys and Girls Country received a loan of \$770,100 guaranteed by the Small Business Administration (SBA) as a part of the Paycheck Protection Program (PPP), in response to economic stress caused by the COVID-19 pandemic. The loan may be forgiven contingent upon satisfying criteria determined by the extent to which the loan enabled the Boys and Girls Country to maintain its employees and/or payroll. Under the original terms of the loan, monthly payments of \$43,332 of principal and interest were to commence on November 7, 2020 until maturity at April 7, 2022. In October 2020, the lender amended the terms of the loan to provide more flexibility in repayment terms and expanded opportunities for forgiveness. Effective immediately, loan payments were deferred by the servicing bank until September 7, 2021.

Boys and Girls Country applied for loan forgiveness as directed by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and received full forgiveness of the loan on April 7, 2021.

NOTE I CONTINGENCIES

As a result of the COVID-19 pandemic occurring during 2020, economic uncertainties have continued to negatively affect Boys and Girls Country's operations. However, the related financial impact and duration cannot be reasonably estimated at this time.

Boys and Girls Country is the defendant in an ongoing claim made by previous employees of Boys and Girls Country. As of the report date, it is not possible to determine, with any precision, the probable outcome or the amount of any liability not covered by commercial insurance policies. Management believes that the disposition of these lawsuits will not have a material effect on Boys and Girls Country's financial position or cash flows.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

NOTE J NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions include contributions restricted by the donor for specific purposes or time periods and are comprised of the following at September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
<u>Purpose Restricted:</u>		
Residential Services Program	\$ 224,355	\$ 203,910
College & Career Program	6,465	150,523
Facilities:		
Cottage Rebuild	1,383,903	2,435,724
Other	22,594	19,734
Endowment Support	<u>12,722,192</u>	<u>10,691,225</u>
Total Purpose Restricted	<u>14,359,509</u>	<u>13,501,116</u>
<u>Time Restricted:</u>		
Next Year	-	50,000
In Perpetuity	<u>7,484,726</u>	<u>7,448,133</u>
	<u>7,484,726</u>	<u>7,498,133</u>
Total Net Assets with Donor Restrictions	<u>\$ 21,844,235</u>	<u>\$ 20,999,249</u>

The Endowment Fund holds assets received from donors restricted to be held in perpetuity, the earnings from which are to be used for the purposes indicated below:

	<u>2020</u>	<u>2019</u>
General support of Boys and Girls Country	\$ 4,079,021	\$ 4,075,646
Scholarships	1,663,424	1,642,071
Children's Table Funds	605,259	593,394
Facilities Maintenance Fund	1,000,000	1,000,000
Teaching parent support	125,000	125,000
Other	<u>12,022</u>	<u>12,022</u>
	<u>\$ 7,484,726</u>	<u>\$ 7,448,133</u>

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

NOTE J NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Assets restricted for the long-term purposes of the cottage rebuild program at September 30, 2020 and 2019 include:

	2020	2019
Restricted cash	\$ 138,837	\$ 288,910
Contributions receivable	767,500	772,176
Endowment receivable	50,000	340,000
Cottage construction in progress	6,700	549,694
Restricted asset deficit	420,866	484,944
	\$ 1,383,903	\$ 2,435,724

NOTE K RETIREMENT PLANS

Boys and Girls Country contributes an amount equal to 3% of each employee's annual salary to a defined-contribution retirement plan for employees who have met the Plan's eligibility requirements. Boys and Girls Country contributed \$79,910 and \$66,918 to the plan in 2020 and 2019, respectively.

NOTE L SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 9, 2021, the date the financial statements were available to be issued. In addition to the forgiveness of the first PPP Loan disclosed in Note H, the following events have occurred.

Subsequent to September 2020, the Endowment Fund authorized a \$995,000 grant to Boys and Girls Country.

In March 2021, Boys and Girls Country obtained a \$747,618 loan from the United States Small Business Administration (SBA) under the Paycheck Protection Program. The term of the loan is five years. The interest rate is 1.0% per annum. Principal and interest are subject to partial or full forgiveness based on compliance with certain criteria. Boys and Girls Country's management expects to qualify for forgiveness of most, if not all, of the loan's principal.

In June 2020, Boys and Girls Country entered into an agreement to sell approximately 43 acres of its real property, classified as assets held for sale. The sale closed in February 2021 for approximately \$2,145,000, and reduced the balance of assets classified as held for sale by \$419,045.

No other subsequent events occurred which require adjustment to or disclosure in the financial statements at September 30, 2020.