

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

FINANCIAL STATEMENTS

SEPTEMBER 30, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Boys and Girls Country of Houston, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Boys and Girls Country of Houston, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Boys and Girls Country of Houston, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited Boys and Girls Country of Houston, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 9, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



HARPER & PEARSON COMPANY, P.C.

Houston, Texas
March 30, 2022

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2021 AND 2020

ASSETS	2021	2020
Unrestricted cash and cash equivalents	\$ 701,670	\$ -
Restricted cash and cash equivalents	483,656	138,837
Total cash and cash equivalents	1,185,326	138,837
Marketable securities	1,839,841	213,070
Receivables		
Contributions receivable, net	1,812,561	930,209
Other receivables	679,294	78,419
Prepaid expenses and other assets	310,082	212,921
Assets held for sale, net	-	522,781
Interest in net assets of the Endowment Fund	27,207,091	22,801,281
Property and equipment, net	9,132,546	9,227,012
TOTAL ASSETS	\$ 42,166,741	\$ 34,124,530
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 241,444	\$ 238,218
Advance payable, Endowment Fund	750,000	1,000,000
Note payable, PPP	747,617	770,100
Accrued salaries and benefits	226,548	177,691
Deferred revenue	1,475,188	449,401
Funds held for residents	51,979	94,582
TOTAL LIABILITIES	3,492,776	2,729,992
NET ASSETS		
Net assets without donor restrictions	11,179,127	9,550,303
Net assets with donor restrictions	27,494,838	21,844,235
TOTAL NET ASSETS	38,673,965	31,394,538
TOTAL LIABILITIES AND NET ASSETS	\$ 42,166,741	\$ 34,124,530

See accompanying notes.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021
WITH SUMMARY TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2020

	2021			September 30, 2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
OPERATING REVENUES				
Contributions	\$ 1,820,346	\$ 1,599,899	\$ 3,420,245	\$ 2,474,705
Special events	1,754,073	-	1,754,073	2,563,424
Reimbursement for care	116,136	-	116,136	129,298
Grants from the Endowment Fund	616,000	379,000	995,000	300,000
Other income	<u>89,315</u>	<u>-</u>	<u>89,315</u>	<u>145,723</u>
Total Operating Revenue	4,395,870	1,978,899	6,374,769	5,613,150
NET ASSETS RELEASED FROM RESTRICTIONS				
	<u>734,106</u>	<u>(734,106)</u>	<u>-</u>	<u>-</u>
Total Revenues and Support	<u>5,129,976</u>	<u>1,244,793</u>	<u>6,374,769</u>	<u>5,613,150</u>
EXPENSES				
Program services	4,949,749	-	4,949,749	5,169,669
Management and general	405,936	-	405,936	443,301
Fund raising	586,135	-	586,135	671,363
Direct donor benefit costs	<u>66,193</u>	<u>-</u>	<u>66,193</u>	<u>444,527</u>
Total Expenses	<u>6,008,013</u>	<u>-</u>	<u>6,008,013</u>	<u>6,728,860</u>
CHANGE IN NET ASSETS FROM OPERATIONS				
	(878,037)	1,244,793	366,756	(1,115,710)
GAIN ON SALE OF ASSETS HELD FOR SALE				
	1,729,846	-	1,729,846	-
GAIN ON EXTINGUISHMENT OF DEBT				
	777,015	-	777,015	-
CHANGE IN INTEREST IN ENDOWMENT FUND				
	<u>-</u>	<u>4,405,810</u>	<u>4,405,810</u>	<u>2,067,564</u>
CHANGE IN NET ASSETS	1,628,824	5,650,603	7,279,427	951,854
NET ASSETS, BEGINNING OF YEAR	<u>9,550,303</u>	<u>21,844,235</u>	<u>31,394,538</u>	<u>30,442,684</u>
NET ASSETS, END OF YEAR	<u>\$ 11,179,127</u>	<u>\$ 27,494,838</u>	<u>\$ 38,673,965</u>	<u>\$ 31,394,538</u>

See accompanying notes.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2021
WITH SUMMARY TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2020

	2021				Total	September 30, 2020 Total
	Program Services		Management and General	Fund Raising		
	Residential Services	College and Career				
Salaries and employee benefits	\$ 2,632,408	\$ 454,114	\$ 231,767	\$ 357,006	\$ 3,675,295	\$ 4,072,432
Depreciation	449,193	74,865	43,672	56,149	623,879	657,438
Utilities and telephone	192,235	32,040	18,690	24,030	266,995	298,130
Maintenance and operation of properties and vehicles	240,716	42,868	13,785	17,724	315,093	298,725
Resident activities and education support	91,134	125,447	-	-	216,581	130,542
Insurance	192,813	32,136	18,746	24,102	267,797	250,836
Food and supplies	61,961	15,419	-	-	77,380	145,781
Staff recruiting and training costs	95,505	18,336	6,464	8,855	129,160	87,814
Direct mailings and newsletter	160	40	-	65,467	65,667	52,274
Office supplies and postage	81,221	13,538	18,980	25,466	139,205	99,156
Resident medical and dental care	17,478	1,795	-	-	19,273	16,151
Bad debt expense	-	-	-	-	-	20,000
Interest expense	-	-	7,726	-	7,726	3,650
Ranch operations	15,614	-	-	-	15,614	17,905
Professional fees	<u>59,625</u>	<u>9,088</u>	<u>46,106</u>	<u>7,336</u>	<u>122,155</u>	<u>133,499</u>
Total Expenses	<u>\$ 4,130,063</u>	<u>\$ 819,686</u>	<u>\$ 405,936</u>	<u>\$ 586,135</u>	5,941,820	6,284,333
Direct donor benefit costs					<u>66,193</u>	<u>444,527</u>
Total					<u>\$ 6,008,013</u>	<u>\$ 6,728,860</u>

See accompanying notes.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 7,279,427	\$ 951,854
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	623,879	657,438
Gain on extinguishment of debt	(777,015)	-
Donated property and equipment	(44,667)	(13,750)
(Gain) Loss on disposal of property and equipment	(1,729,846)	2,600
Realized and unrealized loss (gain) on marketable securities	22,172	(470)
Change in interest in net assets of Endowment Fund	(4,405,810)	(2,067,564)
Change in operating assets and liabilities:		
Contributions receivable, net	(1,608,089)	303,390
Other receivables	(600,875)	292,455
Prepaid expenses and other assets	(97,161)	99,762
Accounts payable and accrued liabilities	10,141	(80,023)
Accrued salaries and benefits	48,857	(20,050)
Deferred revenue	1,025,787	(683,807)
Funds held for residents	(42,603)	29,956
Total adjustments	<u>(7,575,230)</u>	<u>(1,480,063)</u>
Net cash used by operating activities	<u>(295,803)</u>	<u>(528,209)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(3,081,585)	(850,686)
Proceeds from sales of marketable securities	1,432,642	703,046
Proceeds from sale of assets held for sale	2,131,060	-
Purchase of property and equipment	<u>(363,179)</u>	<u>(263,385)</u>
Net cash provided (used) by investing activities	<u>118,938</u>	<u>(411,025)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for acquisition of property and equipment	725,737	19,061
Repayment of advances from Endowment Fund	(250,000)	-
Borrowings on note payable, PPP	<u>747,617</u>	<u>770,100</u>
Net cash provided by financing activities	<u>1,223,354</u>	<u>789,161</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,046,489	(150,073)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>138,837</u>	<u>288,910</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,185,326</u>	<u>\$ 138,837</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cost of property and equipment retired	<u>\$ 1,891,848</u>	<u>\$ 166,897</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, 2020, 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, interest-bearing deposits, and marketable securities. Boys and Girls Country places its cash and interest-bearing deposits 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)

Cash and Cash Equivalents - Cash and cash equivalents include cash and interest-bearing deposits held in sweep accounts maintained with investment banks.

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, 2021 and 2020 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, 2021, contributions receivable from three donors represented 77% of gross contributions receivable. At September 30, 2020 contributions receivable from two donors represented 84% of gross contributions receivable.

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 - In fiscal 2019, management 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 2021, Boys and Girls Country sold one of the tracts and related buildings and improvements with a book value of \$401,214 for \$2,131,060 and recognized a gain of \$1,729,846. Boys and Girls Country continues to use the other tract and reclassified it to property and equipment during fiscal 2021. Boys and Girls Country used both properties for operations in fiscal 2021 and 2020, and recorded \$30,673 and \$58,294 of depreciation during the respective fiscal years. In fiscal 2020, Boys and Girls Country wrote off a fully depreciated item with an original cost of \$26,500.

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.

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

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.

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 2021 and 2020, \$44,667 and \$13,750 of donated property and equipment and \$5,555 and \$38,098 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.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020

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

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.

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 2021 and 2020.

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, 2021, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2018 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 27% and 42% of total contributions and special events revenue were derived from a single annual event, the Heritage Awards Dinner, during fiscal 2021 and 2020, respectively.

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 \$1,362,000 and \$1,140,000 at September 30, 2021 and 2020, 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 2021 and 2020, as further discussed in Notes G and H, Boys and Girls Country obtained loans 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, 2021 AND 2020

NOTE B LIQUIDITY AND AVAILABILITY (CONTINUED)

Financial assets available to fund subsequent year operations are as follows at September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,185,326	\$ 138,837
Marketable securities	1,839,841	213,070
Contributions receivable	1,812,561	930,209
Other receivables	<u>679,294</u>	<u>78,419</u>
	5,517,022	1,360,535
Less Restricted Assets (Note I)	<u>(2,493,656)</u>	<u>(1,383,903)</u>
Assets Available (Deficit)	<u>\$ 3,023,366</u>	<u>\$ (23,368)</u>

NOTE C CONTRIBUTIONS RECEIVABLE, NET

Contributions at September 30, 2021 and 2020 are receivable as follows:

	<u>2021</u>	<u>2020</u>
Receivable in less than one year	\$ 771,197	\$ 182,847
Receivable in one to five years	<u>1,050,000</u>	<u>765,000</u>
	1,821,197	947,847
Allowance for doubtful accounts	<u>(8,636)</u>	<u>(17,638)</u>
	<u>\$ 1,812,561</u>	<u>\$ 930,209</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, 2021 AND 2020

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, 2021 and 2020:

	2021			
	Level 1	Level 2	Level 3	Total
Interest in net assets of the				
Endowment Fund	\$ -	\$ 27,207,091	\$ -	\$ 27,207,091
U.S. government securities	10,009	-	-	10,009
Corporate bonds	-	1,829,832	-	1,829,832
	\$ 10,009	\$ 29,036,923	\$ -	\$ 29,046,932
	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	12,515	-	-	12,515
	\$ 213,070	\$ 22,801,281	\$ -	\$ 23,014,351

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, 2021 and 2020 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 three limited partnership funds and limited liability company funds reported by the Endowment Fund using the net asset value per share (NAV) practical expedient. At September 30, 2021 and 2020, the value of the limited partnerships and limited liability company was \$4,251,153 and \$959,198, respectively.

There have been no changes in the techniques used to determine fair value during fiscal 2021 and 2020. 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, 2021 AND 2020

NOTE E PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30, 2021 and 2020:

	2021	2020
Land and improvements	\$ 4,709,139	\$ 4,671,388
Buildings and improvements	12,717,277	12,423,807
Furniture and equipment	1,613,356	1,513,241
Transportation equipment	691,866	664,016
Livestock	59,350	59,350
Construction in progress	59,781	6,700
	19,850,769	19,338,502
Less accumulated depreciation	<u>(10,718,223)</u>	<u>(10,111,490)</u>
	<u>\$ 9,132,546</u>	<u>\$ 9,227,012</u>

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, 2021, the contingent liability to HomeAid Houston was approximately \$170,000.

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, 2021, the contingent liability to HomeAid Houston was approximately \$333,000.

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. At September 30, 2021, the contingent liability to HomeAid Houston was approximately \$142,000.

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 2021 and 2020. 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 2021 and 2020, grants amounting to \$995,000 and \$300,000, 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. No fund-raising services were provided to the Endowment Fund in during fiscal 2021. During fiscal 2020, Boys and Girls Country charged the Endowment Fund \$38,487 for fund-raising services and included this amount in other income. In addition, during fiscal 2021 and 2020, Boys and Girls Country provided to the Endowment Fund in-kind accounting and management services valued at \$28,000 and \$30,825, respectively. At September 30, 2021 and 2020, other receivables included unremitted grants of \$645,000 and \$50,000, respectively, and other expenses of \$1,507 and \$27, 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 \$750,000 and \$1,000,000 at September 30, 2021 and 2020, respectively, 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, 2021 there were no outstanding borrowings under this agreement.

Boys and Girls Country renewed its line of credit agreement on October 12, 2021 to provide borrowings up to \$300,000 through October 12, 2022 at an interest rate of 3.50% per annum. This renewal removed the resting period provision in the original agreement.

NOTE H PAYCHECK PROTECTION PROGRAM

On April 10, 2020, Boys and Girls Country received a loan of \$770,100 pursuant to the Paycheck Protection Program ("PPP loan") under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). Boys and Girls Country elected to treat the funds as debt under FASB ASC 470 Debt. Boys and Girls Country applied for loan forgiveness as directed by the CARES Act and received full forgiveness of the loan and related interest on April 7, 2021. The forgiveness is recognized as a gain on extinguishment of debt in the amount of \$777,015 on the statement of activities.

On March 9, 2021, Boys and Girls Country received a second PPP loan of \$747,617, which remains outstanding at September 30, 2021. Boys and Girls Country elected to treat the funds as debt under FASB ASC 470 Debt. Boys and Girls Country applied for loan forgiveness as directed by the CARES Act and received full forgiveness of the loan and related interest on October 25, 2021.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020

NOTE I 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, 2021 and 2020:

	2021	2020
<u>Purpose Restricted:</u>		
Residential Services Program	\$ 205,200	\$ 224,355
College & Career Program	51,950	6,465
<u>Facilities:</u>		
Cottage Rebuild	2,493,656	1,383,903
Other	131,304	22,594
Endowment Support	17,090,638	12,722,192
Total Purpose Restricted	19,972,748	14,359,509
<u>Time Restricted:</u>		
In Perpetuity	7,522,090	7,484,726
	7,522,090	7,484,726
Total Net Assets with Donor Restrictions	\$ 27,494,838	\$ 21,844,235

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:

	2021	2020
General support of Boys and Girls Country	\$ 4,105,897	\$ 4,079,021
Scholarships	1,672,712	1,663,424
Children's Table Funds	606,459	605,259
Facilities Maintenance Fund	1,000,000	1,000,000
Teaching parent support	125,000	125,000
Other	12,022	12,022
	\$ 7,522,090	\$ 7,484,726

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020

NOTE I NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Assets restricted for the long-term purposes of the cottage rebuild program at September 30, 2021 and 2020 include:

	2021	2020
Restricted cash and cash equivalents	\$ 483,656	\$ 138,837
Contributions receivable	1,365,000	767,500
Endowment receivable	645,000	50,000
Restricted asset (surplus) deficit	-	427,566
	\$ 2,493,656	\$ 1,383,903

In 2021 and 2020, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	2021	2020
Capital expenditures	\$ 104,254	\$ 1,057,150
Expenditures for program purposes	629,852	405,660
Expiration of time restrictions	-	50,000
	\$ 734,106	\$ 1,512,810

NOTE J 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 \$66,165 and \$79,910 to the plan in 2021 and 2020, respectively.

NOTE K SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 30, 2022, the date the financial statements were available to be issued. As disclosed in Notes G and H, the line of credit was renewed and the second PPP Loan was forgiven. In addition, the Endowment Fund authorized a grant to Boys and Girls County for \$645,000. No other subsequent events occurred which require adjustment to or disclosure in the financial statements at September 30, 2021.