

Boys and Girls Country of Houston, Inc.

Financial Statements

September 30, 2023 and 2022

Boys and Girls Country of Houston, Inc.

September 30, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Boys and Girls Country of Houston, Inc. (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of September 30, 2023, and the related statements of activities, cash flows, and functional expenses 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 the Organization as of September 30, 2023, 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 of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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.

Other Matter

The financial statements of the Organization as of September 30, 2022 were audited by other auditors whose report dated September 11, 2023 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 The Organization'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 The Organization'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.

Pannell Kerr Forster of Texas, P.C.

September 10, 2024

Boys and Girls Country of Houston, Inc.

Statements of Financial Position

	September 30,	
	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 355,047	\$ 742,100
Contributions receivable, net	1,809,494	1,794,522
Other receivables	332,694	341,598
Prepaid expenses and other assets	214,023	350,559
Restricted investments	3,584,644	3,261,499
Restricted cash and cash equivalents	418,832	89,516
Interest in net assets of the Endowment Fund	25,608,327	23,431,981
Property and equipment, net	<u>8,827,258</u>	<u>9,151,255</u>
Total assets	<u>\$ 41,150,319</u>	<u>\$ 39,163,030</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 523,354	\$ 506,277
Advance payable, Endowment Fund	-	750,000
Refundable advances	1,137,441	1,622,868
Funds held for residents	<u>71,725</u>	<u>64,073</u>
Total liabilities	<u>1,732,520</u>	<u>2,943,218</u>
Commitments and contingencies		
Net assets		
Without donor restrictions	11,771,034	11,452,709
With donor restrictions	<u>27,646,765</u>	<u>24,767,103</u>
Total net assets	<u>39,417,799</u>	<u>36,219,812</u>
Total liabilities and net assets	<u>\$ 41,150,319</u>	<u>\$ 39,163,030</u>

See accompanying notes to the financial statements.

Boys and Girls Country of Houston, Inc.

Statement of Activities

For the Year Ended September 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support			
Contributions	\$ 2,394,289	\$ 1,302,135	\$ 3,696,424
In-kind contributions	8,319		8,319
Special events	3,336,288		3,336,288
Less: direct benefit to donors	(374,415)	-	(374,415)
Grants from the Endowment Fund	1,300,000		1,300,000
Investment income, net	127,805	-	127,805
Other income	98,174	-	98,174
Net assets released from restrictions	<u>598,819</u>	<u>(598,819)</u>	<u>-</u>
Total revenue and support	<u>7,489,279</u>	<u>703,316</u>	<u>8,192,595</u>
Expenses			
Program services	4,926,546	-	4,926,546
Supporting activities:			
Management and general	1,105,704	-	1,105,704
Fundraising	<u>1,138,704</u>	<u>-</u>	<u>1,138,704</u>
Total support services	<u>2,244,408</u>	<u>-</u>	<u>2,244,408</u>
Total expenses	<u>7,170,954</u>	<u>-</u>	<u>7,170,954</u>
Change in interest in Endowment Fund	<u>-</u>	<u>2,176,346</u>	<u>2,176,346</u>
Changes in net assets	318,325	2,879,662	3,197,987
Net assets at beginning of year	<u>11,452,709</u>	<u>24,767,103</u>	<u>36,219,812</u>
Net assets at end of year	<u>\$ 11,771,034</u>	<u>\$ 27,646,765</u>	<u>\$ 39,417,799</u>

See accompanying notes to the financial statements.

Boys and Girls Country of Houston, Inc.

Statement of Activities

For the Year Ended September 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions	\$ 2,035,320	\$ 1,987,090	\$ 4,022,410
In-kind contributions	60,479	-	60,479
Reimbursement for care	110,220	-	110,220
Special events	2,669,320	-	2,669,320
Less: direct benefit to donors	(436,139)	-	(436,139)
Grants from the Endowment Fund	555,000	100,000	655,000
Other income, net	856,814	-	856,814
Net assets released from restrictions	<u>1,039,715</u>	<u>(1,039,715)</u>	<u>-</u>
Total revenue and support	<u>6,890,729</u>	<u>1,047,375</u>	<u>7,938,104</u>
Expenses			
Program services	5,345,825	-	5,345,825
Supporting activities			
Management and general	502,600	-	502,600
Fundraising	<u>768,722</u>	<u>-</u>	<u>768,722</u>
Total support services	<u>1,271,322</u>	<u>-</u>	<u>1,271,322</u>
Total expenses	<u>6,617,147</u>	<u>-</u>	<u>6,617,147</u>
Change in interest in Endowment Fund	<u>-</u>	<u>(3,775,110)</u>	<u>(3,775,110)</u>
Changes in net assets	273,582	(2,727,735)	(2,454,153)
Net assets at beginning of year	<u>11,179,127</u>	<u>27,494,838</u>	<u>38,673,965</u>
Net assets at end of year	<u>\$ 11,452,709</u>	<u>\$ 24,767,103</u>	<u>\$ 36,219,812</u>

See accompanying notes to the financial statements.

Boys and Girls Country of Houston, Inc.

Statements of Cash Flows

	Year Ended September 30,	
	2023	2022
Cash flows from operating activities		
Changes in net assets	\$ 3,197,987	\$ (2,454,153)
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation	530,884	654,805
Gain on debt extinguishment	-	(747,617)
Donated property and equipment	-	(52,440)
Donated investments	(79,053)	-
Realized and unrealized loss on marketable securities	5,700	70,391
Change in interest in net assets of endowment fund	(2,176,346)	3,775,110
Change in assets and liabilities:		
Contributions receivable, net	(14,972)	(1,297,355)
Other receivables	(741,096)	337,696
Prepaid expenses and other assets	136,536	(40,477)
Accounts payable and accrued liabilities	17,077	38,285
Advances payable, Endowment Fund	-	-
Refundable advances	(485,427)	147,680
Funds held for residents	7,652	12,094
Net cash provided by operating activities	<u>398,942</u>	<u>444,019</u>
Cash flows from investing activities		
Purchases of marketable securities	(2,193,729)	(1,759,441)
Proceeds from sales of marketable securities	1,943,937	267,392
Purchase of property and equipment	<u>(206,887)</u>	<u>(621,074)</u>
Net cash used in investing activities	<u>(456,679)</u>	<u>(2,113,123)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for acquisition of property and equipment	<u>-</u>	<u>1,315,394</u>
Net cash provided by financing activities	<u>-</u>	<u>1,315,394</u>
Net change in cash and cash equivalents	(57,737)	(353,710)
Cash, cash equivalents, and restricted cash at beginning of year	<u>831,616</u>	<u>1,185,326</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 773,879</u>	<u>\$ 831,616</u>
Reconciliation of cash, cash equivalents, and restricted cash		
Cash and cash equivalents	355,047	742,100
Restricted cash and cash equivalents	<u>418,832</u>	<u>89,516</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 773,879</u>	<u>\$ 831,616</u>

See accompanying notes to the financial statements.

Boys and Girls Country of Houston, Inc.

Statements of Functional Expenses

	Program Services	Supporting Activities		Total
		Management and General	Fundraising	
Year ended September 30, 2023				
Salaries and benefits	\$ 2,928,067	\$ 921,456	\$ 647,469	\$ 4,496,992
Depreciation	435,325	37,161	58,398	530,884
Utilities and telephone	201,613	17,211	27,046	245,870
Maintenance and operation of properties and vehicles	403,230	22,427	35,243	460,899
Resident activities and education	292,861	-	-	292,861
Insurance	288,868	24,660	38,750	352,277
Food and supplies	134,510	-	513,500	648,010
Staff recruiting and training	31,277	1,524	12,640	45,441
Direct mailings and newsletter	-	-	83,279	83,279
Office supplies and postage	106,942	49,765	91,073	247,780
Resident medical and dental care	23,500	-	-	23,500
Ranch operations	25,982	-	-	25,982
Professional fees	54,371	31,501	5,722	91,594
	4,926,546	1,105,704	1,513,119	7,545,369
Less: direct benefit to donors	-	-	(374,415)	(374,415)
Total expenses	\$ 4,926,546	\$ 1,105,704	\$ 1,138,704	\$ 7,170,954
Year ended September 30, 2022				
Salaries and benefits	\$ 3,314,865	\$ 334,750	\$ 409,506	\$ 4,059,121
Depreciation	536,940	45,836	72,029	654,805
Utilities and telephone	224,275	19,145	30,086	273,506
Maintenance and operation of properties and vehicles	323,497	17,992	28,274	369,763
Resident activities and education	369,544	-	-	369,544
Insurance	212,473	18,138	28,502	259,113
Food and supplies	98,738	-	436,139	534,877
Staff recruiting and training	100,370	4,890	40,561	145,821
Direct mailings and newsletter	-	-	87,535	87,535
Office supplies and postage	35,191	16,376	29,969	81,536
Resident medical and dental care	24,042	-	-	24,042
Bad debt expense	-	-	34,000	34,000
Ranch operations	27,404	-	-	27,404
Professional fees	78,486	45,473	8,260	132,219
	5,345,825	502,600	1,204,861	7,053,286
Less: direct benefit to donors	-	-	(436,139)	(436,139)
Total expenses	\$ 5,345,825	\$ 502,600	\$ 768,722	\$ 6,617,147

See accompanying notes to the financial statements.

Boys and Girls Country of Houston, Inc.

Notes to Financial Statements

September 30, 2023 and 2022

Note 1 - Basis of Presentation and Summary of Significant Accounting PoliciesNature of activities

Boys and Girls Country of Houston, Inc. (the "Organization"), 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). The Organization 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 the Organization. The Endowment Fund has a separate board of directors and the Organization does not exercise control over the Endowment Fund, therefore consolidated financial statements are not required. However, the interest in the net assets of the Endowment Fund are included as an asset in the accompanying statements of financial position. The Endowment Fund transfers assets to the Organization when authorized by the Endowment Fund's Board of Directors.

Reclassifications

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 financial statement presentation. Such reclassifications have no effect on previously reported total assets, liabilities, net assets or changes in net assets.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make certain assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Management believes its estimates are reasonable.

Financial instruments, credit risk and concentration of credit risk

Financial instruments that subject the Organization to concentrations of credit risk consist principally of cash, cash equivalents, contributions and other receivables and marketable securities. The Organization places its cash and cash equivalents 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, the Organization periodically evaluates the stability of these financial institutions. The Organization has not incurred losses related to these deposits.

Contributions receivable and other receivables consists of pledge receivables from individuals and corporations. Contributions receivable from two donors represented 58% and 64%, respectively, of gross contributions receivable. Although the Organization is directly affected by the financial stability of its donors, management does not believe significant credit risk exists at September 30, 2023.

Boys and Girls Country of Houston, Inc.

Notes to Financial Statements

September 30, 2023 and 2022

Note 1 - Basis of Presentation and Summary of Significant Accounting Policies (Continued)Financial instruments, credit risk and concentration of credit risk (continued)

The investments in marketable securities are exposed to various risks such as interest rate, market volatility, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statements of financial position.

Approximately 40% and 30% of total contributions and special events revenue were derived from a single annual event, the Heritage Awards Dinner, during the years ended 2023 and 2022, respectively.

Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments that are readily convertible into cash and have an original maturity of three months or less on the date of acquisition.

Investments

Investments 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. See Note 3.

Interest in net assets of the Endowment Fund

The Endowment Fund is considered to be a financially interrelated entity and as such, the Organization's interest in the net assets of the Endowment Fund is the net asset balance of the Endowment Fund as reported in their audited financial statement. 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. See Note 5.

Contributions and other receivables

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, 2023 and 2022 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.

Boys and Girls Country of Houston, Inc.

Notes to Financial Statements

September 30, 2023 and 2022

Note 1 - Basis of Presentation and Summary of Significant Accounting Policies (Continued)Contributions and other receivables (continued)

Contributions receivables are as follows at September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Receivable in less than one year	\$ 762,130	\$ 747,158
Receivable in one to five years	<u>1,050,000</u>	<u>1,050,000</u>
	1,812,130	1,797,158
Less: allowance for doubtful accounts	<u>(2,636)</u>	<u>(2,636)</u>
	<u>\$ 1,809,494</u>	<u>\$ 1,794,522</u>

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.

Property and equipment

Purchased property and equipment are stated at cost, and donated assets are recorded at fair value at the date of donation. Such donations are reported as increases in net assets without restrictions unless the donor has restricted the donated asset to a specific purpose. Major additions and improvements are capitalized, while maintenance and repairs are expensed as incurred. When assets are sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Any gain or loss arising from such disposition is included as income or expense in the year of disposition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated lives for computing depreciation on property and equipment are:

<u>Asset Classification</u>	<u>Useful Life (Years)</u>
Vehicles	3
Equipment	1 to 15
Computer equipment	2 to 6
Furniture and fixtures	3 to 15
Buildings	3 to 30
Leasehold improvements	3 to 40

Deferred revenue

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

Boys and Girls Country of Houston, Inc.

Notes to Financial Statements

September 30, 2023 and 2022

Note 1 - Basis of Presentation and Summary of Significant Accounting Policies (Continued)Basis of presentation

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with GAAP. Accordingly, these financial statements present the financial position, change in net assets, and cash flows of the Organization.

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification, net assets, revenues, expenses, gains and losses are classified 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 the Organization'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 the Organization to the Endowment Fund.

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 the Organization to support various activities.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor for future periods or a specific purpose are reported as increases in net assets with donor restrictions depending upon the nature of the restriction. When a restriction expires or is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions in which the restrictions are met in the same year as received are recorded as unrestricted contributions in the accompanying statements of activities.

Boys and Girls Country of Houston, Inc.

Notes to Financial Statements

September 30, 2023 and 2022

Note 1 - Basis of Presentation and Summary of Significant Accounting Policies (Continued)Contributions (continued)

Conditional promises to give are not included as support until the promise becomes unconditional. A conditional promise to give has a barrier to overcome and either the right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. As of September 30, 2023 and 2022, \$1,137,441 and \$1,622,868, respectively, were considered conditional as they are dependent on occurrence of the annual dinner and are included in refundable advances on the statement of financial position.

The Organization recognizes gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

The Organization 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.

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. Fair value is determined by management using information provided by the donor and in comparison, to current prices to acquire such goods or services. 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. For the years ended September 30, 2023 and 2022, \$0 and \$52,440 of donated property and equipment and \$8,319 and \$8,039 of donated goods were recorded as assets and program expenses, respectively.

Functional expenses

The Organization allocates expenses on a functional basis among the various programs and supporting activities. Expenses that can be identified with a specific program or supporting activity are allocated directly according to their natural expenditure classification. 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.

Boys and Girls Country of Houston, Inc.

Notes to Financial Statements

September 30, 2023 and 2022

Note 1 - Basis of Presentation and Summary of Significant Accounting Policies (Continued)Income taxes

The Organization is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Organization is subject to taxes on unrelated business income. No unrelated business income was generated in the years ended September 30, 2023 and 2022.

The Organization believes that all significant tax positions utilized by the Organization will more likely than not be sustained upon examination. As of September 30, 2023, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2020 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.

Note 2 - Liquidity and Availability

The Organization manages its cash flows through the use of an annual budget that is created by management and approved by its board of directors. The Organization 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. Each year the Endowment may grant to the Organization up to five percent of its net assets (approximately \$1,280,000 and \$1,171,000 at September 30, 2023 and 2022, respectively) based on a request from the Organization. Grant funds are drawn by the Organization when needed to provide liquidity for operations. From time to time, the Organization may supplement cash flow by utilizing cash restricted for the Cottage Rebuild Program (see Note 4) received from donors in advance of the cottage rebuild expenditures. The Organization 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.

Financial assets available to fund subsequent year operations are as follows at September 30, 2023:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 355,047	\$ 742,100
Contributions receivable, net	1,809,494	1,794,522
Other receivables	<u>332,694</u>	<u>341,598</u>
	<u>\$ 2,497,235</u>	<u>\$ 2,878,220</u>

Boys and Girls Country of Houston, Inc.

Notes to Financial Statements

September 30, 2023 and 2022

Note 3 - Fair Value Disclosures

The Organization uses a three-level hierarchy for determination of the fair value. This hierarchy is based on the transparency of inputs to the valuation process as follows:

- Level 1 – observable inputs such as quoted prices in active markets at the measurement date for identical assets or liabilities.
- Level 2 – other inputs that are observable directly or indirectly such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- 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 value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the techniques used during 2023 and 2022. There were no significant transfers in or out of the fair value categories during 2023 and 2022.

The fair values of marketable securities are categorized as follows at September 30, 2023 and 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
September 30, 2023				
Money market mutual fund	\$ 893,077	\$ -	\$ -	\$ 893,077
Treasury bills	-	247,564	-	247,564
Corporate bonds	<u>-</u>	<u>2,444,003</u>	<u>-</u>	<u>2,444,003</u>
Total investments	<u>\$ 893,077</u>	<u>\$ 2,691,567</u>	<u>\$ -</u>	<u>\$ 3,584,644</u>
September 30, 2022				
Money market mutual fund	\$ 1,503,764	\$ -	\$ -	\$ 1,503,764
Corporate bonds	<u>-</u>	<u>1,757,735</u>	<u>-</u>	<u>1,757,735</u>
Total investments	<u>\$ 1,503,764</u>	<u>\$ 1,757,735</u>	<u>\$ -</u>	<u>\$ 3,261,499</u>

Boys and Girls Country of Houston, Inc.

Notes to Financial Statements

September 30, 2023 and 2022

Note 3 - Fair Value Disclosures (Continued)

The methods described above may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, while the valuation methods are considered appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 4 - Property and Equipment

Property and equipment consist of the following at September 30:

	<u>2023</u>	<u>2022</u>
Vehicles	\$ 681,310	\$ 689,666
Furniture and fixtures	1,692,017	1,677,129
Buildings	13,382,417	13,299,687
Livestock	59,350	59,350
Construction in progress	178,412	59,086
Land and land improvements	<u>4,731,614</u>	<u>4,733,315</u>
	20,725,120	20,518,233
Less: accumulated depreciation	<u>(11,897,862)</u>	<u>(11,366,978)</u>
Total property and equipment, net	<u>\$ 8,827,258</u>	<u>\$ 9,151,255</u>

Depreciation expense totaled \$530,884 and \$654,805 for the years ended September 30, 2023 and 2022, respectively.

Since 2015, the Organization 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 the Organization and approximately half of the cost will consist of donated materials and services. The Organization 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, the Organization 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. The Organization intends to utilize each cottage for the full term of each agreement, thus unexpired contingent liabilities have not been recorded.

Boys and Girls Country of Houston, Inc.

Notes to Financial Statements

September 30, 2023 and 2022

Note 4 - Property and Equipment (Continued)

The status of each agreement and the amount of the Organization'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, 2023, the contingent liability to HomeAid Houston was approximately \$103,000.

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, 2023, the contingent liability to HomeAid Houston was approximately \$230,000.

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, 2023, the contingent liability to HomeAid Houston was approximately \$110,000.

Note 5 - The Endowment Fund

In prior years, the Organization transferred a total of \$2,594,360 of 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 the Organization. No unrestricted transfers were made during the years ended September 30, 2023 and 2022. These unrestricted funds are invested with the other Endowment Fund assets but may, upon approval from the Endowment Board of Directors, be utilized by the Organization to fund its activities. In addition, the Organization may request grants from the donor restricted assets of the Endowment Fund to support the specific activities for which they were intended. In the years ended September 30, 2023 and 2022, grants amounting to \$1,300,000 and \$655,000, respectively, were requested and approved. The balance of the net assets of the Endowment Fund, reduced by the transfer noted above, are reflected as net assets with donor restrictions in the accompanying statement of financial position of the Organization.

In September 2011, the Organization entered into a Service Agreement with the Endowment Fund whereby the Endowment Fund reimburses the Organization for payroll and other costs benefiting the Endowment Fund. Fundraising services were provided to the Endowment Fund in the amounts of \$9,675 and \$0 during the years ended September 30, 2023 and 2022, respectively. In addition, during the years ended September 30, 2023 and 2022, the Organization provided to the Endowment Fund in-kind accounting and management services valued at \$35,000 and \$33,000, respectively. At September 30, 2023 and 2022, other receivables included unremitted grants of approximately \$318,000 and \$300,000, respectively, due from the Endowment Fund.

Boys and Girls Country of Houston, Inc.

Notes to Financial Statements

September 30, 2023 and 2022

Note 5 - The Endowment Fund (Continued)

In May 2017, the Endowment Fund Board approved a working capital loan to the Organization up to \$1,000,000 to cover construction payments for the Cottage Rebuild Project and other needs. The advances are non-interest bearing and were repaid through reductions of Endowment grants awarded to the Organization. As of September 30, 2023 and 2022, the amounts due to the Endowment Fund were \$0 and \$750,000, respectively.

The Organization entered into a line of credit agreement with a financial institution, which was guaranteed by the Endowment Fund. The line of credit provided for borrowings up to \$300,000 at an interest rate of 3.50% per annum. At September 30, 2022 there were no outstanding borrowings under this agreement. The line of credit matured October 12, 2022 and was not renewed.

Note 6 - Net Assets with Donor Restrictions

Net assets with donor restrictions are classified based on the nature of donor-imposed restrictions and consist of the following at September 30:

	<u>2023</u>	<u>2022</u>
Purpose restricted:		
Residential services	\$ 481,896	\$ 274,184
College and career Facilities	15,727	-
Cottage rebuild	3,992,475	3,478,050
Other	142,703	177,251
Endowment support	<u>15,376,046</u>	<u>13,202,822</u>
Total purpose restricted	20,008,847	17,132,307
Time restricted:		
In perpetuity	<u>7,637,918</u>	<u>7,634,796</u>
Total net assets with donor restrictions	<u>\$ 27,646,765</u>	<u>\$ 24,767,103</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 as of September 30:

	<u>2023</u>	<u>2022</u>
Operations support of Boys and Girls Country	\$ 4,171,792	\$ 4,142,818
Scholarships	1,733,476	607,444
Children's table funds	607,650	1,747,512
Facilities maintenance fund	1,000,000	1,000,000
Teaching parent support	125,000	125,000
Other	<u>-</u>	<u>12,022</u>
Total purpose restricted	<u>\$ 7,637,918</u>	<u>\$ 7,634,796</u>

Boys and Girls Country of Houston, Inc.

Notes to Financial Statements

September 30, 2023 and 2022

Note 6 - Net Assets with Donor Restrictions (Continued)

Assets restricted for the long-term purposes of the Cottage Rebuild Program the following at September 30:

	<u>2023</u>	<u>2022</u>
Restricted cash and cash equivalents	\$ 418,832	\$ 89,516
Restricted marketable securities	3,584,644	3,261,499
Contributions receivable	1,065,000	1,065,000
Restricted asset surplus	<u>(1,076,001)</u>	<u>(937,965)</u>
Total	<u>\$ 3,992,475</u>	<u>\$ 3,478,050</u>

The restricted asset surplus represents cottage rebuild costs paid using unrestricted assets. During the years ended September 30, 2023 and 2022, 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:

	<u>2023</u>	<u>2022</u>
Capital expenditures	\$ 194,042	\$ 402,440
Expenditures for program purposes	<u>404,777</u>	<u>637,275</u>
Total	<u>\$ 598,819</u>	<u>\$ 1,039,715</u>

Note 7 - Retirement Plans

The Organization 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. The Organization contributed \$70,381 and \$62,957 to the plan during the years ended September 30, 2023 and 2022, respectively.

Note 8 - Subsequent Events

Management has evaluated subsequent events as of September 10, 2024, the date the financial statements were available to be issued and has determined that there are no subsequent events to be reported.