

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

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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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 December 31, 2017, and the related statement 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 December 31, 2017, 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 2016 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 July 24, 2017. In our opinion, the summarized comparative information presented herein for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harper & Pearson Company, P.C.

Houston, Texas
June 18, 2018

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS	2017	2016
Unrestricted cash	\$ -	\$ 372,746
Restricted cash	253,217	403,867
Total cash	253,217	776,613
Investments	201,417	117,146
Receivables		
Pledges receivable, net	1,702,322	1,640,460
Other receivables	451,116	473,506
Prepaid expenses and other assets	198,124	202,635
Interest in net assets of the Endowment Fund	19,251,527	16,527,424
Property and equipment, net	9,433,212	8,422,754
 TOTAL ASSETS	 <u>\$ 31,490,935</u>	 <u>\$ 28,160,538</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 139,586	\$ 139,904
Advance payable, Endowment Fund	600,000	-
Accrued salaries and benefits	249,085	241,651
Funds held for residents	26,783	22,447
 TOTAL LIABILITIES	 <u>1,015,454</u>	 <u>404,002</u>
 NET ASSETS		
Unrestricted	11,110,939	10,945,910
Temporarily restricted	12,824,492	10,526,154
Permanently restricted	6,540,050	6,284,472
 TOTAL NET ASSETS	 <u>30,475,481</u>	 <u>27,756,536</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 31,490,935</u>	 <u>\$ 28,160,538</u>

See accompanying notes.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARY TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016

	December 31, 2017			December 31, 2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
OPERATING REVENUES					
Contributions	\$ 1,350,226	\$ 2,104,136	\$ -	\$ 3,454,362	\$ 3,161,564
Special events	2,544,671	-	-	2,544,671	2,647,542
Direct donor benefit costs	(554,966)	-	-	(554,966)	(450,710)
Reimbursement for care	182,081	-	-	182,081	117,487
Other income	504,213	285,000	-	789,213	1,080,346
Total Operating Revenue	4,026,225	2,389,136	-	6,415,361	6,556,229
NET ASSETS RELEASED FROM RESTRICTIONS					
Capital expenditures	1,543,317	(1,543,317)	-	-	-
Expenditures for program purposes	949,006	(949,006)	-	-	-
Expiration of time restrictions	67,000	(67,000)	-	-	-
Total Revenues and Support	6,585,548	(170,187)	-	6,415,361	6,556,229
EXPENSES					
Program services	5,389,828	-	-	5,389,828	5,338,214
Management and general	434,932	-	-	434,932	423,732
Fund raising	595,759	-	-	595,759	634,521
Total Expenses	6,420,519	-	-	6,420,519	6,396,467
CHANGE IN NET ASSETS FROM OPERATIONS	165,029	(170,187)	-	(5,158)	159,762
CHANGE IN INTEREST IN ENDOWMENT FUND	-	2,468,525	255,578	2,724,103	537,434
CHANGE IN NET ASSETS	165,029	2,298,338	255,578	2,718,945	697,196
NET ASSETS, BEGINNING OF YEAR	10,945,910	10,526,154	6,284,472	27,756,536	27,059,340
NET ASSETS, END OF YEAR	\$ 11,110,939	\$ 12,824,492	\$ 6,540,050	\$ 30,475,481	\$ 27,756,536

See accompanying notes.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARY TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016

	December 31, 2017				December 31, 2016 Total
	Program Services	Management and General	Fund Raising	Total	
Salaries and employee benefits	\$ 3,463,419	\$ 284,223	\$ 305,966	\$ 4,053,608	\$ 3,991,614
Depreciation	529,451	43,602	49,830	622,883	658,877
Utilities and telephone	251,476	20,710	23,668	295,854	314,339
Maintenance and operation of properties and vehicles	298,615	15,616	17,846	332,077	276,542
Activities and education support	286,816	891	1,018	288,725	288,276
Insurance	210,036	17,297	19,768	247,101	260,057
Food and supplies	118,342	-	-	118,342	133,458
Staff recruiting and training costs	65,289	3,236	10,908	79,433	62,969
Direct mailings and newsletter	16,065	1,323	56,281	73,669	83,276
Office supplies and postage	57,243	10,516	35,793	103,552	165,474
Resident medical and dental care	48,118	-	-	48,118	33,353
Bad debt expense	-	-	2,000	2,000	2,000
Ranch operations	12,583	-	-	12,583	14,555
Professional fees	<u>32,375</u>	<u>37,518</u>	<u>72,681</u>	<u>142,574</u>	<u>111,677</u>
Total Expenses	<u>\$ 5,389,828</u>	<u>\$ 434,932</u>	<u>\$ 595,759</u>	6,420,519	6,396,467
Direct donor benefit costs				<u>554,966</u>	<u>450,710</u>
Total				<u>\$ 6,975,485</u>	<u>\$ 6,847,177</u>

See accompanying notes.

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,718,945	\$ 697,196
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	622,883	658,877
Contributions restricted for acquisition of property and equipment	(1,277,774)	(634,959)
Vehicle gifts to others	-	5,074
Donated property and equipment	(238,087)	(431,547)
Loss on disposal of assets	3,283	-
Realized and unrealized loss on investments	423	291
Gain on sales of assets and easement rights	-	(270,850)
Change in interest in net assets of Endowment Fund	(2,724,103)	(537,434)
Change in operating assets and liabilities:		
Pledges receivable, net	(143,318)	(100,231)
Other receivables	22,390	45,582
Prepaid expenses and other assets	4,511	39,056
Accounts payable and accrued liabilities	(318)	12,245
Accrued salaries and benefits	7,434	(2,620)
Funds held for residents	4,336	(3,071)
 Total adjustments	 (3,718,340)	 (1,219,587)
 Net cash used by operating activities	 (999,395)	 (522,391)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	-	(50,000)
Proceeds from sales of investments	-	49,709
Net change in money market mutual fund investments	(84,694)	237,741
Purchase of property and equipment	(1,398,537)	(812,471)
Proceeds from sales of assets and easement rights	-	270,850
 Net cash used by investing activities	 (1,483,231)	 (304,171)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted to acquisition of property and equipment	1,359,230	788,459
Advances from Endowment Fund	1,000,000	-
Repayment of advances from Endowment Fund	(400,000)	-
 Net cash provided by financing activities	 1,959,230	 788,459
 NET CHANGE IN CASH	 (523,396)	 (38,103)
 CASH AT BEGINNING OF YEAR	 776,613	 814,716
 CASH AT END OF YEAR	 \$ 253,217	 \$ 776,613
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cost of property and equipment retired	\$ 353,581	\$ 409,492

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 in crisis between the ages of 5 and 18, primarily from the Greater Houston area. Boys and Girls Country also provides a residential care and scholarship program for residents aged 18 or older.

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 or functional expense category. 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 the Boys and Girls Country's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Management's Estimates - The preparation of financial statements in conformity with 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 investments. 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.

Investments 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 investments. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term could materially impact the amounts reflected in the accompanying financial statements.

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

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 unrestricted net assets unless the income or loss is restricted by donor or law.

Pledges Receivable - Pledges 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 December 31, 2017 and 2016 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 December 31, 2017 and 2016, pledges from four donors represented 82% and 91% of gross pledges 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.

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.

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 statements of activities. Expenditures for maintenance and repairs are charged to earnings as incurred.

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 H, changes in the value of the Endowment Fund from year to year are recorded as an increase or decrease in temporarily or permanently restricted net assets in the statements of activities.

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

- Unrestricted net assets 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.
- Temporarily restricted net assets include contributions restricted by the donor for specific purposes or time periods. When the purpose is accomplished or the time restriction is met, temporarily restricted net assets are released to unrestricted net assets. Temporarily restricted net assets also include Boys and Girls Country's interest in the temporarily restricted net assets of the Endowment Fund and the unrestricted funds that were transferred by Boys and Girls Country to the Endowment Fund. (See Note H).

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

- Permanently restricted net assets represent the interest in the permanently restricted net assets of the Endowment Fund. The Endowment Fund's permanently restricted net assets are contributions that donors have restricted 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. Contributions received with donor stipulations that limit the use of the donated assets are recorded as restricted support. 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 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 2017, \$238,087 of donated property and equipment and \$4,348 of donated goods and services were recorded as in-kind contributions, assets and program expenses. In 2016, \$431,547 of donated property and equipment and \$1,424 of donated goods and services were recorded as in-kind contributions, assets and program expenses.

Reimbursement for Care - Reimbursement for care is recognized as revenue when received.

Functional Expenses - Functional expenses which are not directly related to a specific program or management function are allocated based on management's estimates.

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 2017 and 2016.

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 December 31, 2017, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2014 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.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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

Recent Accounting Pronouncements - In August 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*". The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. This ASU will become effective for Boys and Girls Country beginning January 1, 2018, and it not expected to significantly impact net assets or changes in net assets.

NOTE B PLEDGES RECEIVABLE, NET

Pledges at December 31, 2017 and 2016 are receivable as follows:

	2017	2016
Receivable in less than one year	\$ 680,497	\$ 401,308
Receivable in one to five years	1,030,548	1,254,500
	1,711,045	1,655,808
Allowance for doubtful accounts	(8,723)	(15,348)
	\$ 1,702,322	\$ 1,640,460

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE C PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2017	2016
Land and improvements	\$ 5,078,988	\$ 4,811,040
Buildings and improvements	13,114,180	12,394,871
Furniture and equipment	1,491,296	1,465,295
Transportation equipment	648,123	605,692
Livestock	55,150	55,550
Construction in progress	244,104	16,350
	20,631,841	19,348,798
Less accumulated depreciation	(11,198,629)	(10,926,044)
	\$ 9,433,212	\$ 8,422,754

Joanne Watford Cottage - On November 15, 2015, Boys and Girls Country entered into an agreement with HomeAid Houston (HomeAid) and Partners in Building, LP for the construction of the Joanne Watford Cottage (the Project). The Project was completed during 2016 at a total cost of \$817,187. \$335,000 of this cost consisted of donated materials and services from Partners in Building and others. The remaining balance, \$482,187, was paid by Boys and Girls Country. In connection with HomeAid's support of the Project, Boys and Girls Country was required to make a donation to HomeAid of five percent of the value of the donated materials and services or \$16,750.

Under the terms of the agreement, Boys and Girls Country must use the cottage as a part of its mission for at least ten years following the completion of the Project on November 30, 2016. Should Boys and Girls Country stop using the cottage in its mission or sell the property on which it is located during the period following construction, Boys and Girls Country must reimburse HomeAid for ten percent of the value of the donated materials and services (\$33,500) for each year the cottage is not used. At December 31, 2017, the contingent liability to HomeAid was approximately \$295,917.

Hamill Cottage - On March 29, 2017, Boys and Girls Country entered into an agreement with HomeAid Houston and Lennar Homes/Village Builders for the construction of the Hamill Cottage commencing in 2017. The cost of the Project is estimated at \$900,000. Approximately \$500,000 of the cost will consist of donated materials and services from Lennar Homes/Village Builders and others. The balance, approximately \$400,000, will be paid by Boys and Girls Country in the form of progress payments during construction. At the completion of the Project, 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, approximately \$25,000.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE C PROPERTY AND EQUIPMENT (CONTINUED)

Under the terms of the Agreement, Boys and Girls Country must use the cottage as a part of its mission for at least ten years from the date of completion. Should Boys and Girls Country stop using the cottage in its mission or sell the property on which it is located during the ten-year period following construction, Boys and Girls Country must reimburse HomeAid Houston for ten percent of the value of the donated materials and services (estimated at \$50,000) for each of the ten years that the cottage is not used. At December 31, 2017, the amount contingent liability attributable to construction in progress was not determinable.

NOTE D UNRESTRICTED NET ASSETS

Unrestricted net assets are as follows at December 31:

	2017	2016
Interest in net assets of the Endowment Fund	\$ 2,594,360	\$ 2,594,360
Invested in property and equipment	9,433,212	8,422,754
Undesignated	(916,633)	(71,204)
	\$ 11,110,939	\$ 10,945,910

NOTE E TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Interest in net assets of the Endowment Fund:		
General support of Boys and Girls Country	\$ 8,936,341	\$ 6,994,555
Scholarships	798,940	453,761
Children's Table Funds	203,137	161,973
Facilities Maintenance Fund	164,561	33,645
Teaching parent support	14,138	4,658
	10,117,117	7,648,592
Other temporarily restricted net assets:		
Cottage Rebuild Program	2,331,280	2,431,242
Use in future periods	126,155	67,000
Other	249,940	379,320
	\$ 12,824,492	\$ 10,526,154

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE E TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Assets restricted for the long-term purposes of the cottage rebuild program include the following at December 31:

	2017	2016
Cash	\$ 253,217	\$ 403,867
Pledges receivable	1,470,044	1,577,375
Endowment receivable	300,000	450,000
	\$ 2,023,261	\$ 2,431,242

NOTE F PERMANENTLY RESTRICTED NET ASSETS

All permanently restricted net assets are held by the Endowment Fund. The earnings on the following balances are temporarily restricted to be used for the purposes indicated below:

	2017	2016
General support of Boys and Girls Country	\$ 3,220,655	\$ 3,175,298
Scholarships	1,599,980	1,407,812
Children's Table Funds	582,393	564,340
Facilities Maintenance Fund	1,000,000	1,000,000
Teaching parent support	125,000	125,000
Other	12,022	12,022
	\$ 6,540,050	\$ 6,284,472

NOTE G 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
DECEMBER 31, 2017 AND 2016

NOTE G 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.

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

Interest in net assets of the Endowment Fund is reported at the fair value of the net assets of the Endowment Fund as of December 31, 2017 and 2016 and is based upon the fair value of the underlying assets which consist primarily of actively traded equity securities and corporate bonds. Level 1 and 2 fair value inputs were used to determine the fair value of the underlying assets.

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.

The fair values of investments are categorized as follows at December 31, 2017 and 2016:

	2017			
	Level 1	Level 2	Level 3	Total
Interest in net assets of the Endowment Fund	\$ -	\$ 19,251,527	\$ -	\$ 19,251,527
Money market mutual funds	<u>201,417</u>	<u>-</u>	<u>-</u>	<u>201,417</u>
	<u>\$ 201,417</u>	<u>\$ 19,251,527</u>	<u>\$ -</u>	<u>\$ 19,452,944</u>
	2016			
	Level 1	Level 2	Level 3	Total
Interest in net assets of the Endowment Fund	\$ -	\$ 16,527,424	\$ -	\$ 16,527,424
Money market mutual funds	<u>117,146</u>	<u>-</u>	<u>-</u>	<u>117,146</u>
	<u>\$ 117,146</u>	<u>\$ 16,527,424</u>	<u>\$ -</u>	<u>\$ 16,644,570</u>

NOTE H 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 temporarily restricted for the general support of Boys and Girls Country. No unrestricted transfers were made during 2017 or 2016. These unrestricted funds are invested with the other Endowment Fund assets but may be utilized by Boys and Girls Country if required to fund its activities. In addition, Boys and Girls Country may request grants from the temporarily restricted assets of the Endowment Fund to support the specific activities for which they were intended. In 2017 and 2016, grants amounting to \$650,000 each year were requested, approved and included in other income in the financial statements.

The transactions and balances of the permanently restricted net assets of the Endowment Fund are reflected as permanently restricted in the accompanying financial statements. The remaining interest in the Endowment Fund is reported as temporarily restricted.

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. For the years 2017 and 2016, \$119,748 and \$115,569, respectively, were charged to the Endowment Fund under this arrangement and are included as a reduction of salaries and other expenses. At December 31, 2017 and 2016, other receivables include unremitted grants of \$300,000 and \$450,000 and unreimbursed salaries and other expenses of \$12,795 and \$12,701, respectively.

During 2017 and 2016, the Endowment Fund contributed employee time valued at \$59,745 and \$58,675, respectively back to Boys and Girls Country to assist with the Cottage Rebuild Program.

In May 2017, the Endowment Fund Board approved a working capital facility under which Boys and Girls Country would be permitted to draw funds up to one million dollars (\$1,000,000) to cover construction payments for its Cottage Rebuild Project and other needs. Advances are non-interest bearing and will be repaid in the future when Cottage Rebuild Project pledge payments are received or through reductions of future grants awarded to Boys and Girls Country.

NOTE I 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 eligibility requirement of one year of service. Boys and Girls Country contributed \$73,494 and \$68,785 to the plan in 2017 and 2016, respectively.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE J REIMBURSEMENT FOR CARE

Reimbursement for care of the children includes funds from the following sources at December 31:

	<u>2017</u>	<u>2016</u>
Texas Department of Family and Protective Services	\$ 124,375	\$ 54,650
Family Payments	12,685	22,320
Social Security Payments	<u>45,021</u>	<u>40,517</u>
	<u>\$ 182,081</u>	<u>\$ 117,487</u>

NOTE K SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 18, 2018, the date the financial statements were available to be issued. During 2018, Boys and Girls Country borrowed \$250,000 from the Endowment Fund.

No other subsequent events occurred which require adjustment to or disclosure in the financial statements at December 31, 2017.