Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Financial Statements and Supplementary Information
For the Year Ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Boys and Girls Clubs of Greater Houston, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boys and Girls Clubs of Greater Houston, Inc. as of December 31, 2018, and the changes in net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedule of program services by club is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in Schedule I is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Briggs & Veselka Co.

Briggs & Veselka Co.
Houston, Texas

July 30, 2019

BOYS AND GIRLS CLUBS OF GREATER HOUSTON, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS	
Cash and cash equivalents	$ 2,383,461
Funds held on behalf of other organizations	199,114
Contributions, pledges and other receivables, net of discount	2,417,621
Prepaid expenses	69,094
Property and equipment, net	8,988,192
Investments - donor restricted	3,812,089
Investments	362,251
TOTAL ASSETS	$18,231,822
LIABILITIES AND NET ASSETS	
Accounts payable	$ 19,503
Funds held on behalf of other organizations	199,114
Accrued liabilities	189,833
Total liabilities	408,450
Net assets	
Without donor restrictions	9,437,929
With donor restrictions	8,385,443
Total net assets	17,823,372
TOTAL LIABILITIES AND NET ASSETS	$18,231,822

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

BOYS AND GIRLS CLUBS OF GREATER HOUSTON, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Revenue and support			
Contributions and grants	$ 2,383,292	$ 939,880	$ 3,323,172
Allocations by United Way	261,106	80,595	341,701
Special events, net of donor benefits of $372,395	885,117	-	885,117
Federal grants	513,426	-	513,426
State and county grants	637,892	-	637,892
Membership fees	51,443	-	51,443
Foundation donations	85,814	2,224,216	2,310,030
In-kind contributions	1,166,709	-	1,166,709
Investment loss, net	-	(343,336)	(343,336)
Loss on sale of assets	(143,738)	-	(143,738)
Other income	71,110	-	71,110
	5,912,171	2,901,355	8,813,526
Net assets released from restrictions	3,177,970	(3,177,970)	-
Total revenue and support	9,090,141	(276,615)	8,813,526
Expenses			
Program services	6,593,150	-	6,593,150
Management and general	915,116	-	915,116
Fundraising	764,149	-	764,149
Total expenses	8,272,415	-	8,272,415
Change in net assets	817,726	(276,615)	541,111
Net assets, beginning of year	8,620,203	8,662,058	17,282,261
NET ASSETS, END OF YEAR	$ 9,437,929	$ 8,385,443	$17,823,372

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

BOYS AND GIRLS CLUBS OF GREATER HOUSTON, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Fundraising	Total
Salaries	$ 2,929,806	$ 549,085	$ 473,063	$ 3,951,954
Employee benefits	239,754	73,542	42,689	355,985
Payroll taxes	243,626	46,501	30,242	320,369
Food and supplies	802,874	1,482	692	805,048
Program special events	79,551	7,161	27,742	114,454
Awards	306	155	142	603
Staff training	65,451	22,988	19,020	107,459
Contract services/consultants	122,823	104,884	64,010	291,717
Telephone	42,061	8,592	2,987	53,640
Accounting, audit and investment manager fees	20,290	36,232	15,962	72,484
Postage	1,219	901	3,439	5,559
Organizational dues	19,411	3,815	1,314	24,540
Printing and supplies	80,910	20,294	20,093	121,297
Educational supplies	66,961	-		66,961
Physical education	7,237	-		7,237
Insurance	167,002	9,435	6,284	182,721
Utilities	152,170	-		152,170
Advertising	-	-	12,847	12,847
Rent	289,828	18,987	18,655	327,470
Janitorial and maintenance	357,783	6,797	17,355	381,935
Vehicle expense	86,257	2,028	5,518	93,803
Scholarships	2,298	-		2,298
Depreciation and amortization	815,532	2,237	2,095	819,864
Totals	$ 6,593,150	$ 915,116	$ 764,149	$ 8,272,415

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

BOYS AND GIRLS CLUBS OF GREATER HOUSTON, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

Cash flows from operating activities	
Change in net assets	$ 541,111
Adjustments to reconcile change in net assets	
to net cash from operating activities:	
In-kind property and equipment donations	(339,435)
Depreciation and amortization	819,864
Loss on sale of assets	143,738
Realized and unrealized loss on investments	458,703
Change in operating assets and liabilities:	
Contributions, pledges and other receivables	642,698
Prepaid expenses	8,743
Accounts payable	(42,568)
Accrued liabilities	55,109
Net cash from operating activities	2,287,963
Cash flows from investing activities	
Purchases of property and equipment	(1,296,923)
Purchases of investments	(587,964)
Proceeds from sales of investments	278,068
Net cash from investing activities	(1,606,819)
Net change in cash and cash equivalents	681,144
Cash and cash equivalents, beginning of year	1,702,317
Cash and cash equivalents, end of year	$ 2,383,461

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

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

The Boys and Girls Clubs of Greater Houston, Inc. and the Boys and Girls Clubs Foundation (the "Foundation") (collectively, the "Organization"), is a nonprofit organization that was formed for the purpose of providing youth development activities in the Houston, Texas metropolitan area. The Boys and Girls Clubs of Greater Houston, Inc. was formed in 1989 while the Foundation was formed in 1987. All inter-entity transactions and balances have been eliminated in the accompanying consolidated financial statements.

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

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

Financial Statement Presentation – The Organization reports information regarding its financial position and activities according to classifications based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

- **Net Assets With Donor Restrictions** – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents – For the purposes of the consolidated statement of cash flows, the Organization considers all cash without donor restrictions, highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents. Cash and cash equivalents include petty cash, demand deposits and certain money market accounts.

The Organization has certain separate bank accounts kept specifically for some of the donor restrictions totaling $232,965 at December 31, 2018.

Contributions, Pledges, and Other Receivables – Unconditional promises to give are recorded as receivables and revenue when received. Generally, no collateral or other security is required to support receivables. An allowance for doubtful accounts is established and accounts written off as needed based upon factors surrounding the credit risk of specific contributors. Management believes that all contributions, pledges and other receivables are collectible; therefore, no allowance for doubtful accounts has been recorded at December 31, 2018.

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

Investments – Investments are comprised of equity and fixed income securities recorded at fair value (*see Note 5*). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment gain or loss (including realized and unrealized gains and losses) is included in the consolidated statement of activities as increases or decreases net assets without donor restrictions unless the income or loss is restricted by donor or law.

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

Contributions – Contributions are recognized as revenue when received or unconditionally pledged. The Organization reports gifts of cash and other assets as restricted support if received with donor-imposed stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, or gifts of undeveloped land donated for a specific use are reclassified to net assets without donor restrictions when the related improvements are placed in service, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

The Organization reports gifts of property and equipment as revenue and support without donor restrictions unless explicit donor-imposed stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor-imposed stipulations about how long these long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets or related improvements made on undeveloped land are placed in service.

In-Kind Contributions and Building and Facility Rights – Donated property, materials, facilities, and services are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The Organization has received promises for the use of buildings and land under operating leases where the lease payments are below market rates or require no monetary lease payments. At the time the agreement is made, the fair value of the building and facility rights, less any consideration paid or to be paid, are either capitalized as a fixed asset or recorded as a donor restricted contribution. The Organization considers unconditionally promised long-term free use of a facility, including control of the property for its estimated economic useful life as property. Accordingly, long-term facility use is capitalized at its estimated fair market value and amortized over the life of the lease (*see Note 4*). Short-term free use of facility leases are treated as an unconditional promise to give and, accordingly, the lease is recorded as a pledge receivable, discounted to its net present value. Annually, the Organization records rent expense over the life of the short-term lease (*see Note 7*). Both long-term and short-term leases are restricted and the restrictions are released over the life of the lease through amortization or rent expense, respectively.

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

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

Functional Allocation of Expenses – The Organization's primary service is to provide program services to youth members. The financial statements report certain categories of expenses that are attributable to more than one program or support function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Natural expenses attributable to more than one functional expense category including depreciation and salaries and benefits are allocated using a variety of cost allocation techniques such as square footage and time and effort.

The Organization's method of allocation is as follows:

Expense Type	Allocation Method
Salaries	Time and effort
Employee benefits	Headcount
Payroll taxes	Headcount
Contract services/consultants	Headcount
Telephone	Square footage
Organizational dues	Headcount
Insurance	Time and effort and square footage
Utilities	Square footage
Rent	Square footage
Janitorial and maintenance	Square footage
Depreciation and amortization	Square footage

Federal Income Tax – The Organization is exempt from federal income taxes under Section 50l(c) (3) of the Internal Revenue Code. However, the Organization is subject to taxes on unrelated business income. During 2018, there were no unrelated business activities; thus, no provision has been made for income taxes. The Organization believes that all significant tax positions utilized by the Organization will more-likely-than-not be sustained upon examination. Tax penalties and interest, if any, would be accrued as incurred and would be classified as general and administrative expense in the consolidated statement of activities.

Advertising – Advertising costs are expensed as incurred. The total advertising costs charged to expense for 2018 were $12,847.

Recently Issued Accounting Pronouncements – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) No. 2016-02*, Leases (Topic 842).* The ASU will require most leases to be recognized on the statement of financial position as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective beginning after December 15, 2019, for nonpublic companies. The standard may be early adopted and requires a modified retrospective transition approach to apply. The Organization is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures.

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

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which changes presentation and disclosure requirements for not-for-profit entities in order to provide more relevant information about the resources (and changes in those resources) to donors, grantors, creditors, and other users. The changes include more qualitative and quantitative requirements about its liquidity, financial performance, and cash flows. ASU No. 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017 and should be applied on a retrospective basis. The adoption of ASU 2016-14 is reflected through the classification of net assets in two groups (i.e., net assets with donor restrictions and net assets without donor restrictions) based on the existence or absence of donor-imposed restrictions, as well as more qualitative and quantitative requirements about its liquidity, financial performance and cash flows.

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

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	$ 2,383,461
Receivables due in less than one year	1,840,683
Investments	362,251
Foundation portfolio income	154,000
Less: assets unavailable for general expenditures within one year	(1,714,437)
Financial assets available to meet cash needs for general expenditures within one year	$ 3,025,958

Assets unavailable for general expenditures include cash and receivable balances with donor-imposed restrictions as well as pledges receivable for donated building space (*see Note 7*).

The Organization has a line of credit in the amount of $1,000,000 which it could draw down if necessary (*see Note 6*).

The Organization's Board of Directors has required that the Fidelity Operating Cash Reserve Account balance cannot be less than $600,000 without approval. As of December 31, 2018 the balance is $604,097. In addition to the financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget on a cash-flow basis.

NOTE 3 – CONTRIBUTIONS, PLEDGES AND OTHER RECEIVABLES

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

Contributions, pledges and other receivables are as follows at December 31, 2018:

Receivables in less than one year	$ 1,840,683
Receivables in one to five years	601,614
Total contributions, pledges and other receivables	2,442,297
Less: discount to net present value	(24,676)
Total contributions, pledges and other receivables, net of discount	$ 2,417,621

For 2018, two donors accounted for approximately 27%, of total receivables.

NOTE 4 – PROPERTY AND EQUIPMENT

Original estimated useful lives and cost of property and equipment are as follows at December 31, 2018:

	Lives	Amount
Land		$ 626,401
Construction in progress		184,576
Building and facility rights	20 - 30 years	3,800,000
Building and improvements	12 - 39 years	9,332,505
Equipment and fixtures	3 - 7 years	370,357
Transportation equipment	5 years	475,572
Software	3 years	1,150,989
		15,940,400
Less: accumulated depreciation		(6,952,208)
Total property and equipment, net		$ 8,988,192

Depreciation and amortization expense was $819,864 for 2018.

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

Amortization of the building and facility rights relating to the restricted contributions amounted to $115,024 during 2018 and is included in net assets released from restrictions on the consolidated statement of activities.

NOTE 5 – INVESTMENTS AND FAIR VALUE DISCLOSURES

Investments are primarily maintained with a trust company in which a member of the Board of Directors of the Organization is also a member of the management of the trust company.

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

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

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

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

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

Following is a description of the valuation techniques used for assets measured at fair value. There have been no changes in the techniques used during 2018.

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

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

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

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

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

The fair values of investments are categorized as follows at December 31, 2018:

	Level 1	Level 2	Level 3	Total
Equity securities				
U.S. small cap	$ 196,164	$ -	$ -	$ 196,164
U.S. mid cap	204,254	-	-	204,254
U.S. large cap	455,260	-	-	455,260
Global	652,478	-	-	652,478
Emerging	228,981	-	-	228,981
Commodity	214,724	-	-	214,724
Energy sector	359,267	-	-	359,267
World stock	114,555	-	-	114,555
Fixed income securities				
International	253,540	-	-	253,540
Intermediate term	663,780	-	-	663,780
Intermediate credit	305,339	-	-	305,339
Short-term credit	307,084	-	-	307,084
Inflation protected bond	218,914	-	-	218,914
Total investments	$ 4,174,340	$ -	$ -	$ 4,174,340

Investment return is summarized as follows at December 31, 2018:

Interest and dividend income	$ 143,203
Realized and unrealized loss on investments	(458,703)
Advisor fees	(27,836)
Total investment loss, net	$ (343,336)

NOTE 6 – LINE OF CREDIT

The Organization had a revolving line of credit with a bank which expired on August 26, 2018.

The Organization entered into a $1,000,000 revolving line of credit with a different bank which expires during November 2019. Advances under this agreement are due on demand, or the expiration date, if demand has not been made. Interest is based on changes in the Index (Wall Street Journal prime rate) minus 0.67% (4.83% at December 31, 2018). The line of credit is unsecured. At December 31, 2018, there were no amounts outstanding on this line of credit.

NOTE 7 – IN-KIND CONTRIBUTIONS

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

These items are recorded as in-kind contribution revenue at their estimated fair value as of December 31, 2018:

Computer and software	$ 301,633
Legal and consulting	40,224
Internet technology services	18,000
Food services	747,444
Equipment and fixtures	8,246
Vehicles	35,435
Educational toys	4,097
Other	11,630
Total in-kind contributions	$ 1,166,709

The Organization received free use of donated building space through a collaborative partnership with Royal Independent School District (ISD) and relocated its Brookshire Club to the ISD. The term of the agreement is from February 10, 2014 through December 31, 2020. This lease is recognized as a pledge receivable, discounted to net present value and rent expense is recorded over the life of the lease (*see Note 1*). At December 31, 2018, net assets with donor restrictions was $341,105 (*see Note 9*). During 2018, rental expense related to this lease was $176,876.

NOTE 8 – PENSION AND 401K PLANS

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

The Organization contributes 10% of eligible employee salaries to the plan. Effective January 1, 2017, the Organization amended its adoption agreement under its Retirement Plan to reduce contributions from 10% to 5%. During 2018, the Organization made and recorded as expense benefit plan contributions, net of forfeitures, amounting to $-0-. Contributions from the employees are not allowed. Effective February 28, 2018, the Organization elected to freeze any future benefit accruals and plan participation.

Effective January 1, 2018, the Organization began sponsoring a 401(k) Safe Harbor Master Plan (the "401(k) Plan"). The Organization will contribute 3% of the participant's compensation for the plan year and employees are 100% vested after three years. The Organization may also make a discretionary matching contribution in any amount. The Organization's contributions to the plan, net of forfeitures, during 2018 were $94,875.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following at December 31, 2018:

Capital improvements	$ 1,384,998
Time restricted	965,136
Time restricted: Combined growth campaign	646,075
Building and facility rights	834,371
Royal ISD Club	341,105
Richmond-Rosenberg Club	100,104
Social and character development (United Way)	80,595
Scholarships	11,208
To be held in perpetuity	4,021,851
Total net assets with donor restrictions	$ 8,385,443

During 2013, the Organization received pledges of $3,025,000 restricted for clubs in Fort Bend County. These pledges are time restricted and are released over the period of 2013 through 2018. During 2018, $400,000 was released in accordance with the Organization's policy. At December 31, 2018, donor restricted net assets related to these pledges were $-0-.

In November 2015, the Organization launched a combined capital and operational campaign (combined growth campaign) to establish new clubs to serve youth across the Greater Houston region. At December 31, 2018, restricted net assets related to this campaign totaled $646,075. These net assets are time restricted and are released as the related time restriction is met.

NOTE 10 – ENDOWMENT FUNDS

Interpretation of Relevant Law – The Organization has a donor restricted endowment fund. Earnings from the funds asset that have not been explicitly restricted by the donor are appropriated for expenditure by the endowment in a manner consistent with the standard of prudence prescribed by The Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). At December 31, 2018 the donor-restricted endowment fund had a balance of $4,021,851.

The endowment consists primarily of donor-restricted funds established to support the operations of the Boys and Girls Clubs of Greater Houston, Inc. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization classifies amounts in its donor restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Organization's Board of Directors appropriates such amounts for expenditure. The Organization has interpreted the TUPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted TUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary.

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

- the duration and preservation of the funds;
- the purposes of the Organization and the donor-restricted endowment fund;
- general economic conditions;
- the possible effect of inflation and deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the Organization; and
- the investment policies of the Organization.

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

During 2018, the Foundation Board approved a spending rate of 4% of the Foundation's beginning net assets. (The Foundation is a separate organization under the control of the Boys and Girls Clubs of Greater Houston, Inc. as set forth in *Note 1*.)

The Organization has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The Foundation Board appropriated for expenditure $154,000 from underwater endowment funds during the year, which represents 4% of the 12-quarter moving average. This represents approximately 3.5 % of the beginning of the year net assets which is below its normal distribution of 4% of beginning of the year assets.

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

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

Return Objectives – The long-term objective is to earn a total rate of return that exceeds the spending rate plus long-term inflation less the costs of managing the investment fund. The portfolio may be invested in a diversified portfolio of equities listed on a recognized national stock exchange; fixed income securities; real estate investment trusts (REIT), real assets relating to energy commodities or metals and alternative investments which include diversified asset funds and absolute return funds. The funds are required to be diversified both by asset class and, within asset classes, by economic sector, industry, and market capitalization (size) and alternative investments cannot exceed 30% of the portfolio. Investment proceeds may be temporarily invested in cash and cash equivalents within the fund.

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

	With Donor Restrictions
Endowment net assets, December 31, 2017	$ 4,517,273
Contribution	1,914
Investment return, net	(343,336)
Appropriation of restricted net assets (*see Note 9*)	(154,000)
Endowment net assets, December 31, 2018	$ 4,021,851

Underwater Endowment – From time-to-time, the fair value of cash and investments associated with the individual donor restricted endowment fund may fall below the level that the donor or TUPMIFA requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature exist in the Foundation's donor-restricted endowment fund, which has an original gift value of $4,324,700, a current fair value of $4,021,851, and a deficiency of approximately $303,000 as of December 31, 2018. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

NOTE 11 – FEDERAL, STATE AND COUNTY GRANTS

The Organization receives grant funding from federal, state and county sources to operate its clubs. The grants may contain restrictions that the money be spent on specific programs. The Organization received $1,151,318 in contributions from federal, state and county grant sources for 2018. Grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 12 – OPERATING LEASES

In June 2015, the Organization executed a two-year lease agreement for a 14,000 square foot facility with a monthly base rent of $4,230 and additional monthly rents for operating expenses incurred by the Landlord. Through June 2016, the Organization's share of operating expenses was estimated to be $4,500 per month. The operating expenses allocated to the Organization by the Landlord are re-evaluated annually.

In June 2016, the Organization exercised its option to extend the lease maturity date to June 2019, with essentially the same terms and monthly base rents of $4,653. The Organization also rents copier equipment. Total facility and equipment rent expense, including in-kind rent expenses (*see Note 7*) during 2018 was $187,880. Effective January 1, 2019, the office lease was extended through July 1, 2021. Rent under the new lease is $6,153 per month and includes additional leased space for a new club location. Future minimum lease payments under this lease as of December 31, 2018 are $78,836 for the years ending December 31, 2019 and 2020 and $39,418 for the year ending December 31, 2021.

NOTE 13 – RELATED PARTY TRANSACTIONS

The Organization is voluntarily affiliated with Boys and Girls Clubs of America, Inc. (BGCA). In addition to participating in the Pension Trust discussed in *Note 8*, the Organization paid dues to BGCA amounting to $16,899 during 2018.

Dues entitle the Organization to staff training and program support and the opportunity to participate in grants arranged by BGCA. During 2018, the Organization received $557,599 in grants directly from BGCA.

During 2018, the Organization received cash donations from members of the Board of Directors amounting to $556,343. At December 31, 2018, pledges receivable relating to members of the Board of Directors, on an undiscounted basis, approximated $346,075.

At December 31, 2018, the Organization held $199,114 for clubs affiliated with BGCA which is included in funds held on behalf of other organizations on the Statement of Financial Position.

On February 13, 2018, the Organization entered into a management agreement (the "Agreement") with the Boys and Girls Club of Wharton, Inc. (Wharton). The Agreement term was initially for five months ending June 30, 2018 and was subsequently extended through the end of the year. Under the Agreement, the Organization agreed to provide general and administrative, operational, management and advisory support to Wharton for a $3,000 monthly fee.

On December 20, 2018, the Organization's Board of Directors agreed to acquire Wharton. The acquisition was effective on January 1, 2019, at which point all assets of Wharton were transferred to the Organization.

NOTE 14 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through July 30, 2019, the date the financial statements were available to be issued. Other than disclosed in *Notes 12 and 13*, no other subsequent events occurred which require adjustment or disclosure to the financial statements at December 31, 2018.

Havard	$ 642,258
Johnny Mitchell	635,221
Richmond-Rosenberg Club	603,662
Brookshire/Royal ISD	577,156
Spring Branch	611,914
Morefield	510,304
Fort Bend	461,827
Stafford	449,296
Holthouse	380,466
Allen Parkway	326,498
Buffalo Creek	261,853
Houston Texans Teen Club	222,428
Housman	169,826
KIPP Sunnyside	141,988
Women’s Home/Treasure Forest	141,781
Kashmere Gardens	104,013
Westwood	92,626
Woodview	70,084
Spring Branch Elementary	59,205
Spring Oaks	56,255
YES Prep	42,678
Texas Children’s	26,584
Wharton Clubs	5,227
Total program services	$ 6,593,150

See independent auditors’ report.