

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

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

C O N T E N T S

	<u>Page</u>
Independent Auditor's Report.....	2-3
Statements of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statements of Cash Flows	7
Notes to Financial Statements	8-17



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, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys and Girls Country of Houston, Inc. as of December 31, 2018, 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 2017 financial statements of Boys and Girls Country of Houston, Inc. and we expressed an unmodified audit opinion on those financial statements in our report dated June 18, 2018. In our opinion, the summarized comparative information presented herein for the year ended December 31, 2017, 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 27, 2019

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS	2018	2017
Unrestricted cash	\$ 614	\$ -
Restricted cash	664,579	253,217
Total cash	665,193	253,217
Marketable securities	518,458	201,417
Receivables		
Pledges receivable, net	1,439,121	1,702,322
Other receivables	456,509	451,116
Prepaid expenses and other assets	130,533	198,124
Interest in net assets of the Endowment Fund	18,498,321	19,251,527
Property and equipment, net	9,827,213	9,433,212
TOTAL ASSETS	\$ 31,535,348	\$ 31,490,935
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 224,947	\$ 139,586
Advance payable, Endowment Fund	1,000,000	600,000
Accrued salaries and benefits	245,369	249,085
Funds held for residents	30,137	26,783
TOTAL LIABILITIES	1,500,453	1,015,454
NET ASSETS		
Net assets without donor restrictions	11,805,577	11,110,939
Net assets with donor restrictions	18,229,318	19,364,542
TOTAL NET ASSETS	30,034,895	30,475,481
TOTAL LIABILITIES AND NET ASSETS	\$ 31,535,348	\$ 31,490,935

See accompanying notes.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARY TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017

	December 31, 2018			December 31, 2017 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
OPERATING REVENUES				
Contributions	\$ 1,672,622	\$ 1,092,380	\$ 2,765,002	\$ 3,454,362
Special events	3,130,649	-	3,130,649	2,544,671
Reimbursement for care	191,219	-	191,219	182,081
Grants from the Endowment Fund	253,000	297,000	550,000	650,000
Other income	<u>252,893</u>	<u>-</u>	<u>252,893</u>	<u>139,213</u>
Total Operating Revenue	5,500,383	1,389,380	6,889,763	6,970,327
NET ASSETS RELEASED FROM RESTRICTIONS				
Capital expenditures	902,062	(902,062)	-	-
Expenditures for program purposes	773,180	(773,180)	-	-
Expiration of time restrictions	<u>96,155</u>	<u>(96,155)</u>	<u>-</u>	<u>-</u>
Total Revenues and Support	<u>7,271,780</u>	<u>(382,017)</u>	<u>6,889,763</u>	<u>6,970,327</u>
EXPENSES				
Program services	5,134,198	-	5,134,198	5,389,828
Management and general	364,550	-	364,550	434,932
Fund raising	546,503	-	546,503	595,759
Direct donor benefit costs	<u>531,891</u>	<u>-</u>	<u>531,891</u>	<u>554,966</u>
Total Expenses	<u>6,577,142</u>	<u>-</u>	<u>6,577,142</u>	<u>6,975,485</u>
CHANGE IN NET ASSETS FROM OPERATIONS	694,638	(382,017)	312,621	(5,158)
CHANGE IN INTEREST IN ENDOWMENT FUND	<u>-</u>	<u>(753,207)</u>	<u>(753,207)</u>	<u>2,724,103</u>
CHANGE IN NET ASSETS	694,638	(1,135,224)	(440,586)	2,718,945
NET ASSETS, BEGINNING OF YEAR	<u>11,110,939</u>	<u>19,364,542</u>	<u>30,475,481</u>	<u>27,756,536</u>
NET ASSETS, END OF YEAR	<u>\$ 11,805,577</u>	<u>\$ 18,229,318</u>	<u>\$ 30,034,895</u>	<u>\$ 30,475,481</u>

See accompanying notes.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARY TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017

	December 31, 2018					December 31, 2017 Total
	Program Services		Management and General	Fund Raising	Total	
	Residential	College and Career				
Salaries and employee benefits	\$ 2,707,053	\$ 432,352	\$ 224,427	\$ 278,367	\$ 3,642,199	\$ 4,053,608
Depreciation	475,968	77,184	38,592	51,456	643,200	622,883
Utilities and telephone	222,031	36,006	18,003	24,003	300,043	295,854
Maintenance and operation of properties and vehicles	260,089	46,148	13,419	17,892	337,548	332,077
Resident activities and education support	134,896	121,909	389	519	257,713	288,725
Insurance	195,088	31,636	15,818	21,091	263,633	247,101
Food and supplies	85,993	21,263	-	-	107,256	118,342
Staff recruiting and training costs	72,433	14,596	3,241	8,560	98,830	79,433
Direct mailings and newsletter	-	-	-	48,039	48,039	73,669
Office supplies and postage	54,745	9,215	10,757	40,018	114,735	103,552
Resident medical and dental care	24,278	596	-	-	24,874	48,118
Bad debt expense	-	-	-	15,000	15,000	2,000
Ranch operations	21,867	-	-	-	21,867	12,583
Professional fees	<u>82,543</u>	<u>6,309</u>	<u>39,904</u>	<u>41,558</u>	<u>170,314</u>	<u>142,573</u>
Total Expenses	<u>\$ 4,336,984</u>	<u>\$ 797,214</u>	<u>\$ 364,550</u>	<u>\$ 546,503</u>	6,045,251	6,420,518
Direct donor benefit costs					<u>531,891</u>	<u>554,966</u>
Total					<u>\$ 6,577,142</u>	<u>\$ 6,975,484</u>

See accompanying notes.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (440,586)	\$ 2,718,945
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	643,200	622,883
Contributions restricted for acquisition of property and equipment	(26,270)	(1,277,774)
Donated property and equipment	(631,726)	(238,087)
Loss on disposal of property and equipment	5,399	3,283
Realized and unrealized loss on marketable securities	173	423
Change in interest in net assets of Endowment Fund	753,207	(2,724,103)
Change in operating assets and liabilities:		
Pledges receivable, net	(107,795)	(143,318)
Other receivables	(5,393)	22,390
Prepaid expenses and other assets	67,591	4,511
Accounts payable and accrued liabilities	85,361	(318)
Accrued salaries and benefits	(3,716)	7,434
Funds held for residents	3,354	4,336
	783,385	(3,718,340)
Total adjustments		
Net cash provided (used) by operating activities	342,799	(999,395)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(317,214)	(84,694)
Purchase of property and equipment	(410,875)	(1,398,537)
	(728,089)	(1,483,231)
Net cash used by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted to acquisition of property and equipment	397,266	1,359,230
Advances from Endowment Fund	400,000	1,000,000
Repayment of advances from Endowment Fund	-	(400,000)
	797,266	1,959,230
Net cash provided by financing activities		
NET CHANGE IN CASH	411,976	(523,396)
CASH AT BEGINNING OF YEAR	253,217	776,613
CASH AT END OF YEAR	\$ 665,193	\$ 253,217
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cost of property and equipment retired	\$ 320,188	\$ 353,581

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 (Residential Services Program). Boys and Girls Country also provides a residential care and scholarship program for residents aged 18 or older (College & Career Program).

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

Comparative Financial Information - The financial statements include certain prior year summarized comparative information in total but not by net asset class 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, 2017, from which the summarized information was derived.

Implementation of New Accounting Standard - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*" in August 2016. This ASU became effective for Boys and Girls Country on January 1, 2018. The ASU amends the current reporting model for nonprofit organizations and enhances required disclosures. The major provisions of the standard applicable to the Foundation 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) requiring that all nonprofits present an analysis of expenses by function and disclose a summary of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, and (d) presenting investment return net of external and direct internal investment expenses. There was no impact on previously reported net assets or changes in net assets.

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.

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

Concentrations of Credit and Market Risk - Financial instruments that subject Boys and Girls Country to concentrations of credit risk consist principally of cash and marketable securities. Boys and Girls Country places its cash with high credit quality financial institutions. Deposits with these financial institutions occasionally exceeded the amount of federal deposit insurance provided on such deposits (by approximately \$161,000 at December 31, 2018); however, these amounts typically may be redeemed upon demand and, therefore, bear minimal risk. In monitoring this credit risk, Boys and Girls Country periodically evaluates the stability of these financial institutions.

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

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

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, 2018 and 2017 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, 2018 and 2017, pledges from four donors represented 72% and 82% 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.

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

The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and any gain or loss is included in the statements of activities.

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

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

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

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

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

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

In-Kind Contributions - Donated assets, materials and use of facilities are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related asset or expense is recorded as the item is used. Contributions of services which would typically need to be purchased, if not provided by donation, are recognized either when services received create or enhance nonfinancial assets or are provided by individuals possessing specialized skills. In 2018, \$631,726 of donated property and equipment and \$40,873 of donated goods and services were recorded as in-kind contributions, assets and program expenses. 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.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Reimbursement for Care - Reimbursement for care of the children is recognized as revenue when received and includes funds from Texas Department of Family and Protective Services, Social Security and family payments.

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

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

Income Taxes - Boys and Girls Country is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, Boys and Girls Country is subject to taxes on unrelated business income. No unrelated business income was generated in 2018 and 2017.

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, 2018, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2015 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 B PLEDGES RECEIVABLE, NET

Pledges at December 31, 2018 and 2017 are receivable as follows:

	2018	2017
Receivable in less than one year	\$ 644,368	\$ 680,497
Receivable in one to five years	816,176	1,030,548
	1,460,544	1,711,045
Allowance for doubtful accounts	(21,423)	(8,723)
	\$ 1,439,121	\$ 1,702,322

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE C LIQUIDITY AND AVAILABILITY

Boys and Girls Country manages its cash flows through the use of an annual budget that is created by Management and approved by its Board of Directors. Boys and Girls Country generally relies on proceeds from its fund-raising events, contributions from different constituencies, grants from the Endowment and other sources of revenue to fund its ongoing operations. As described in Note F, each year the Endowment may grant to Boys and Girls Country up to five percent of its net assets based on a request from Boys and Girls Country. Grant funds are drawn by Boys and Girls Country when needed to provide liquidity for operations.

When available, Boys and Girls Country seeks to maximize the return on excess funds through investments in marketable securities for its own account. When needed, these marketable securities are liquidated to fund operations.

Financial assets available to fund subsequent year operations are as follows at December 31:

	<u>2018</u>	<u>2017</u>
Cash	\$ 665,193	\$ 253,217
Money Market Mutual Fund	318,793	201,417
U. S. Government Securities	199,665	-
Current pledges receivable	644,368	680,497
Endowment receivable	350,306	312,795
Other receivables	<u>106,203</u>	<u>138,321</u>
	2,284,528	1,586,247
Less Restricted Assets (Note G)	<u>(1,951,626)</u>	<u>(2,331,280)</u>
Assets Available (Deficit)	<u>\$ 332,902</u>	<u>\$ (745,033)</u>

NOTE D FAIR VALUE DISCLOSURES

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

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

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE D FAIR VALUE DISCLOSURES (CONTINUED)

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

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

The fair values of marketable securities are categorized as follows at December 31, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Interest in net assets of the				
Endowment Fund	\$ -	\$ 18,498,321	\$ -	\$ 18,498,321
U.S. government securities	199,665	-	-	199,665
Money market mutual fund	<u>318,793</u>	<u>-</u>	<u>-</u>	<u>318,793</u>
	<u>\$ 518,458</u>	<u>\$ 18,498,321</u>	<u>\$ -</u>	<u>\$ 19,016,779</u>
	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 fund	<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>

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, 2018 and 2017 and is based upon the fair value of the underlying assets which consist primarily of actively traded equity securities, corporate bonds and U.S. government securities. The investments of the Endowment Fund also include a limited partnership fund reported by the Endowment Fund using the net asset value per share (NAV) practical expedient. At December 31, 2018 and 2017, the value of the limited partnership was \$478,183 and \$161,341, respectively.

There have been no changes in the techniques used to determine fair value during 2018 and 2017. 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 technique is appropriate and consistent with other market participants, the use of different techniques or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE E PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2018	2017
Land and improvements	\$ 5,143,267	\$ 5,078,988
Buildings and improvements	13,901,269	13,114,180
Furniture and equipment	1,496,093	1,491,296
Transportation equipment	679,758	648,123
Livestock	56,250	55,150
Construction in progress	77,617	244,104
	21,354,254	20,631,841
Less accumulated depreciation	(11,527,041)	(11,198,629)
	\$ 9,827,213	\$ 9,433,212

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

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

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

Joanne Watford Cottage

The cottage was completed on November 30, 2016 and included \$335,000 in donated materials and services. At December 31, 2018, the contingent liability to HomeAid Houston was approximately \$262,400.

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. In accordance with its agreement, Boys and Girls Country made a donation to HomeAid Houston of \$25,600. At December 31, 2018, the contingent liability to HomeAid Houston was approximately \$448,000.

NOTE E PROPERTY AND EQUIPMENT (CONTINUED)

Woodforest Cottage

In May 2019, Boys and Girls Country entered into an agreement with HomeAid Houston and Empire Builders for the construction of the Woodforest Cottage. The cost of the Project is estimated at \$900,000. Approximately \$377,000 of the cost will consist of donated materials and services from Empire Builders and others. The balance, approximately \$523,000, 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 will be required to make a donation to HomeAid of approximately \$19,000.

NOTE F THE ENDOWMENT FUND

In prior years, Boys and Girls Country had transferred a total of \$2,594,360 unrestricted, excess funds to the Endowment Fund to invest. Earnings on this transfer accrue to the Endowment Fund and are reported as donor restricted for the general support of Boys and Girls Country. No unrestricted transfers were made during 2018 or 2017. These unrestricted funds are invested with the other Endowment Fund assets but may upon approval from the Endowment Board of Directors be utilized by Boys and Girls Country to fund its activities. In addition, Boys and Girls Country may request grants from the donor restricted assets of the Endowment Fund to support the specific activities for which they were intended. In 2018 and 2017, grants amounting to \$550,000 and \$650,000, respectively, were requested and approved.

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

In September 2011, Boys and Girls Country entered into a Service Agreement with the Endowment Fund whereby the Endowment Fund reimburses Boys and Girls Country for payroll and other costs benefiting the Endowment Fund. For the years 2018 and 2017, \$51,036 and \$119,748, respectively, were charged to the Endowment Fund under this arrangement and are included as a reduction of salaries and other expenses. In addition, beginning in January 2018, the Boys and Girls Country charged Endowment Fund for fund-raising services totaling \$43,496 and included this income in other income. At December 31, 2018 and 2017, other receivables include unremitted grants of \$350,000 and \$300,000, respectively and unreimbursed salaries and other expenses of \$306 and \$12,795 at December 31, 2018 and 2017, respectively.

During 2018 and 2017, the Endowment Fund contributed employee time valued at \$36,500 and \$59,745, 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 loan to Boys and Girls Country up to one million dollars (\$1,000,000) to cover construction payments for the Cottage Rebuild Project and other needs. Outstanding advances amounting to \$1,000,000 and \$600,000 at December 31, 2018 and 2017, respectively, are non-interest bearing and will be repaid in the future when Cottage Rebuild Project pledge payments are received or through reductions of future Endowment grants awarded to Boys and Girls Country.

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE G NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions include contributions restricted by the donor for specific purposes or time periods and are comprised of the following at December 31:

	<u>2018</u>	<u>2017</u>
<u>Purpose Restricted:</u>		
Residential Services Program	\$ 223,779	\$ 143,270
College & Career Program	64,576	76,402
<u>Facilities:</u>		
Cottage Rebuild	1,951,626	2,331,280
Other	35,375	30,268
Endowment Support	<u>8,553,665</u>	<u>10,117,117</u>
Total Purpose Restricted	<u>10,829,021</u>	<u>12,698,337</u>
<u>Time Restricted:</u>		
Next Year	50,000	126,155
In Perpetuity	<u>7,350,297</u>	<u>6,540,050</u>
	<u>7,400,297</u>	<u>6,666,205</u>
Total Net Assets with Donor Restrictions	<u>\$ 18,229,318</u>	<u>\$ 19,364,542</u>

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

	<u>2018</u>	<u>2017</u>
General support of Boys and Girls Country	\$ 3,984,244	\$ 3,220,655
Scholarships	1,639,218	1,599,980
Children's Table Funds	589,813	582,393
Facilities Maintenance Fund	1,000,000	1,000,000
Teaching parent support	125,000	125,000
Other	<u>12,022</u>	<u>12,022</u>
	<u>\$ 7,350,297</u>	<u>\$ 6,540,050</u>

BOYS AND GIRLS COUNTRY OF HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE G NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

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

	2018	2017
Restricted cash	\$ 664,579	\$ 253,217
Marketable securities	192,999	-
Pledges receivable	1,094,048	1,470,044
Endowment receivable	-	300,000
Restricted asset deficit	-	308,019
	\$ 1,951,626	\$ 2,331,280

NOTE H RETIREMENT PLANS

Boys and Girls Country contributes an amount equal to 3% of each employee's annual salary to a defined-contribution retirement plan for employees who have met the Plan's eligibility requirements. Boys and Girls Country contributed \$65,201 and \$73,494 to the plan in 2018 and 2017, respectively.

NOTE I SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 27, 2019, the date the financial statements were available to be issued. As discussed in Note E, Boys and Girls Country entered into an agreement for the construction of the Woodforest Cottage. No other subsequent events occurred which require adjustment to or disclosure in the financial statements at December 31, 2018.