Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Financial Statements
and Independent Auditors' Report
for the year ended December 31, 2019

Boys and Girls Clubs of Greater Houston, Inc.

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Boys and Girls Clubs of Greater Houston, Inc., which comprise the consolidated statement of financial position as of December 31, 2019 and the related consolidated statements of activities, of functional expenses, and of 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Boys and Girls Clubs of Greater Houston, Inc. as of December 31, 2019 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2020 on our consideration of Boys and Girls Clubs of Greater Houston, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Boys and Girls Clubs of Greater Houston, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Boys and Girls Clubs of Greater Houston, Inc.'s internal control over financial reporting and compliance.

Blazek & Vetterling

August 6, 2020

Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Statement of Financial Position as of December 31, 2019

ASSETS	
Cash and cash equivalents *(Note 3)*	$ 1,290,117
Contributions receivable, net *(Note 4)*	2,258,886
Prepaid expenses and other assets	109,422
Investments *(Note 5)*	4,917,013
Property and equipment, net *(Note 6)*	11,576,435
TOTAL ASSETS	$ 20,151,873
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	$ 67,118
Accrued liabilities	178,256
Total liabilities	245,374
Commitments and contingencies *(Notes 7 and 10)*	
Net assets:	
Without donor restrictions (*Note 11)*	12,510,231
With donor restrictions (*Notes 12 and 13)*	7,396,268
Total net assets	19,906,499
TOTAL LIABILITIES AND NET ASSETS	$ 20,151,873

See accompanying notes to consolidated financial statements.

Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Statement of Activities for the year ended December 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government *(Note 7)*:			
In-kind	$ 1,085,956		$ 1,085,956
Other	1,839,888		1,839,888
Other in-kind	1,329,503		1,329,503
Other	2,941,538	$ 2,204,942	5,146,480
Special events (net of donor benefits of $47,532)	1,189,758		1,189,758
Net investment return	63,439	637,854	701,293
Other	35,303		35,303
Total revenue	8,485,385	2,842,796	11,328,181
Net assets released from restrictions:			
Expiration of time restrictions	1,354,218	(1,354,218)	
Program expenditures	2,477,753	(2,477,753)	
Total	12,317,356	(989,175)	11,328,181
EXPENSES:			
Program services	10,284,860		10,284,860
Management and general	920,579		920,579
Fundraising	1,049,431		1,049,431
Total expenses	12,254,870		12,254,870
CHANGES IN NET ASSETS BEFORE CHANGES RELATED TO ACQUISITION OF BOYS AND GIRLS CLUBS OF WHARTON	62,486	(989,175)	(926,689)
Contribution from acquisition of Boys and Girls Clubs of Wharton *(Note 9)*	2,986,345		2,986,345
CHANGES IN NET ASSETS	3,048,831	(989,175)	2,059,656
Net assets, beginning of year	9,461,400	8,385,443	17,846,843
Net assets, end of year	$ 12,510,231	$ 7,396,268	$ 19,906,499

See accompanying notes to consolidated financial statements.

Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Statement of Functional Expenses for the year ended December 31, 2019

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related expenses	$ 4,705,817	$ 720,319	$ 714,612	$ 6,140,748
Food and supplies	1,543,180	1,704	1,728	1,546,612
Rent	1,111,300	22,519	22,699	1,156,518
Depreciation and amortization	1,020,079	10,518		1,030,597
Janitorial and maintenance	664,327	4,682	5,398	674,407
Supplies	272,091	22,383	21,957	316,431
Contract services	161,780	29,906	118,009	309,695
Insurance	201,202	18,912	17,058	237,172
Printing and postage	119,326	11,874	22,948	154,148
Utilities	152,479			152,479
Vehicle and transportation	115,943	3,014	4,536	123,493
Professional fees	36,109	38,159	27,181	101,449
Staff training	50,455	20,782	15,997	87,234
Telephone	51,031	13,396	5,255	69,682
Advertising	2,575		41,938	44,513
Other	77,166	2,411	30,115	109,692
Total expenses	$ 10,284,860	$ 920,579	$ 1,049,431	12,254,870
Direct donor benefits				47,532
Total				$ 12,302,402

See accompanying notes to consolidated financial statements.

Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Statement of Cash Flows for the year ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	$ 2,059,656
Adjustments to reconcile changes in net assets to net cash used by operating activities:	
Net noncash assets and liabilities acquired at fair value	(2,773,906)
Depreciation and amortization	1,030,597
Loss on sale of assets	21,534
Net realized and unrealized gain on investments	(579,447)
Changes in operating assets and liabilities:	
Contributions receivable	126,275
Prepaid expenses and other assets	(748)
Accounts payable and accrued liabilities	(183,911)
Net cash used by operating activities	(299,950)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(852,754)
Purchases of investments	(340,356)
Proceeds from sales of investments	391,415
Change in money market mutual fund	8,681
Net cash used by investing activities	(793,014)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,092,964)
Cash and cash equivalents, beginning of year	2,383,081
Cash and cash equivalents, end of year	$ 1,290,117

See accompanying notes to consolidated financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Boys and Girls Clubs of Greater Houston, Inc. (the Clubs) was incorporated in 1989 for the purpose of providing youth development activities in the greater Houston, Texas area. Serving youth from ages 6 to 17 predominantly from lower income families, approximately 22 clubs were in operation in 2019 providing many programs to achieve academic success, healthy lifestyles and promote good character and citizenship.

Boys and Girls Clubs Foundation (the Foundation) was incorporated under the laws of the State of Texas in 1987 and is governed by a Board of Trustees elected by the Board of Directors of the Clubs.

Basis of consolidation – These financial statements include the assets, liabilities, net assets, and activities of the Clubs and the Foundation (collectively the Boys and Girls Clubs). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – The Clubs and the Foundation are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code (the Code). The Clubs is further classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii). The Foundation is classified as a Type I supporting organization under §509(a)(3).

Cash and cash equivalents include highly liquid investments with original maturities of three months or less.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Contributions receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the contributions are received. Amortization of discounts is included in contributions revenue. An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and donor-by-donor analysis of balances.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property and equipment is reported at cost or, if contributed, at the estimated fair value at the date of gift. Boys and Girls Clubs capitalizes property and improvements with a cost of $2,500 or more. Leasehold improvements are depreciated over the term of the lease. Depreciation and amortization are provided using the straight-line method over estimated useful lives ranging from 3 to 39 years.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions* unless the donor restrictions are met within the same year the contributions are recognized; such contributions are reported as *without donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the organization is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met. Amounts received in advance are reported as refundable advances.

In-kind contributions – Donated food, services, facilities and materials are recognized as contributions at fair value 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.

Special event revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Amounts received for future events represent conditional contributions and are reported in the statement of financial position as deferred revenue until earned. Direct donor benefit costs represent the cost of goods and services provided to attendees of special events.

Advertising costs are expensed as incurred.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Occupancy costs are allocated based on square footage.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31, 2019 comprise the following:

Financial assets:	
Cash and cash equivalents	$ 1,290,117
Contributions receivable, net	2,258,886
Other assets	34,444
Investments	4,917,013
Total financial assets	8,500,460
Less financial assets not available for general expenditure:	
Endowment investments, less estimated 2020 appropriation	(4,150,625)
Operating contributions receivable due in more than one year	(400,000)
Cash restricted for capital	(261,894)
Board-designated operating reserve	(600,000)
Total financial assets available for general expenditure	$ 3,087,941

Boys and Girls Clubs expect routine contributions to fund operations. In the event of a shortfall, Boys and Girls Clubs has a line of credit in the amount of $1,000,000.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2019 consist of the following:

Money market mutual funds	$ 694,730
Bank deposits	587,468
Petty cash	7,919
Total cash and cash equivalents	$ 1,290,117

Bank deposits exceed the federally insured limit per depositor per institution. Boys and Girls Clubs utilizes high credit quality financial institutions and evaluates the credit quality of the financial institutions on a periodic basis.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2019 are as follows:

Contributions receivable	$ 2,275,840
Discount to present value at rates ranging from 2.21% to 2.58%	(16,954)
Contributions receivable, net	$ 2,258,886

Contributions receivable at December 31, 2019 are expected to be collected as follows:

2020	$ 1,875,840
2021	400,000
Total contributions receivable	$ 2,275,840

Concentration – Two donors represents 42% of the contributions receivable balance outstanding at December 31, 2019.

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments at December 31, 2019 consist of the following:

Equity securities mutual funds	$ 2,956,453
Fixed-income mutual funds	1,746,275
Government reserves money market mutual fund	214,285
Total investments	4,917,013
Less: Investments without donor restriction	(398,103)
Investments restricted for endowment	$ 4,518,910

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure 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. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2019 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Equity securities mutual funds:				
Global	$ 789,114			$ 789,114
Domestic large-cap	552,658			552,658
Energy sector	437,868			437,868
Emerging	270,822			270,822
Domestic small-cap	265,072			265,072
Domestic mid-cap	260,362			260,362
Commodity	231,399			231,399
World stock	149,159			149,159
Fixed-income mutual funds:				
Intermediate term	646,141			646,141
Intermediate credit	304,129			304,129
Short-term credit	303,457			303,457
International	262,915			262,915
Inflation-protected bond	229,632			229,632
Government reserves money market mutual fund	214,285			214,285
Total investments	4,917,013			4,917,013
Money market mutual funds	694,730			694,730
Total assets measured at fair value	$ 5,611,743	$ 0	$ 0	$ 5,611,743

Mutual funds are valued at the reported net asset value of shares held. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Boys and Girls Clubs believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2019 consists of the following:

Building and improvements	$ 12,540,241
Building and facility rights	3,800,000
Software	1,191,173
Land	867,060
Equipment and fixtures	581,195
Transportation equipment	539,027
Construction in progress	40,543
Total property and equipment, at cost	19,559,239
Accumulated depreciation	(7,982,804)
Property and equipment, net	$ 11,576,435

Depreciation and amortization expense of $1,030,597 was recognized in the year ended December 31, 2019.

Building and facility rights – Boys and Girls Clubs has two long-term leases, which are capitalized and amortized over the life of the lease. The Spring Branch facility is under a 30-year lease agreement, which expires in 2031. The Ford Bend facility is under a 20-year lease, which terminates in 2022.

NOTE 7 – GOVERNMENT GRANTS

Boys and Girls Clubs is a party to contracts with federal, state, and local governmental agencies. Should these contracts not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Sources of government grants recognized at December 31, 2019 include the following:

U. S. Department of Education	$ 911,368
U. S. Department of Justice	325,809
U. S. Department of Health and Human Services	171,490
U. S. Department of Housing and Urban Development	24,983
U. S. Department of Agriculture (food commodities)	1,085,956
State and local grants	406,238
Total government grants	$ 2,925,844

Grants from federal, state, and local funding sources require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable cost adjustments to final indirect cost rates. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by Boys and Girls Clubs with the terms of the contracts or changes in the final indirect cost rates.

NOTE 8 – IN-KIND CONTRIBUTIONS

Boys and Girls Clubs receives contributed in-kind services, facilities, materials and food. The estimated fair value of these contributed facilities, services and materials is recognized in the financial statements as contribution revenue and program expense. The majority of food distributed by Boys and Girls Clubs is received by contributions from donors and from discounted food provided by a local food bank. The estimated fair value of food donated is based on an average fair value per standard bag of food distributed. Boys and Girls Clubs received approximately $1,086,000 in federally funded food commodities as reported in Note 7. Non-governmental sources of in-kind contributions recognized at December 31, 2019 include the following:

Food commodities	$ 416,103
Facilities	794,140
Materials and supplies	110,580
Services	8,680
Total in-kind contributions	$ 1,329,503

A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration and clerical support for which no amount has been recognized in the financial statements because the donated services did not meet the criteria for recognition under generally accepted accounting principles.

NOTE 9 – ACQUISTION OF BOYS AND GIRLS CLUBS OF WHARTON

On December 20, 2018, Boys and Girls Clubs entered into an agreement with Boys and Girls Clubs of Wharton, Inc. (Wharton) effective January 1, 2019. Wharton was merged into Boys and Girls Clubs and Wharton ceased to exist. No consideration was paid to Wharton. Boys and Girls Clubs acquired all the property, furniture and fixtures, recreational equipment and obligations of Wharton and recognized a contribution for the excess fair value of assets acquired over liabilities assumed as follows:

Fair value of assets acquired:	
Cash and cash equivalents	$ 212,439
Prepaid expenses and other assets	7,121
Property and equipment	2,787,620
Fair value of liabilities assumed:	
Accounts payable and accrued liabilities	(20,835)
Excess of the fair value of assets acquired over liabilities assumed	$ 2,986,345

NOTE 10 – COMMITMENTS

Boys and Girls Clubs leases office space and equipment under non-cancelable operating leases. In 2015, Boys and Girls Clubs entered into a lease agreement for new office space. The initial term of this lease is eighty-four months beginning on April 1, 2016 through March 31, 2022. Boys and Girls Clubs can extend the lease for one additional seven-year term at the prevailing market rate. In addition, there is a purchase option clause in year two and three of the contract.

The future minimum lease payments at December 31, 2019 are as follows:

2020	$ 147,036
2021	103,518
2022	60,000
2023	60,000
Total	$ 370,554

Lease expense was approximately $153,000 for the year ended December 31, 2019.

Boys and Girls Clubs has a $1,000,000 bank line of credit that expires on November 1, 2020 and bears interest at 4.08%. Advances under this agreement are due on demand, or the expiration date, if demand has not been made. The line of credit is unsecured. The line was not utilized in 2019 and there is no outstanding balance at December 31, 2019.

NOTE 11 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions at December 31, 2019 consist of the following:

Undesignated	$ 11,910,231
Board-designated reserve	600,000
Total net assets without donor restrictions	$ 12,510,231

NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2019 are restricted as follows:

Subject to expenditure for specified purpose:	
Fort Bend Clubs	$ 800,000
Capital improvements	410,224
Royal ISD Club	176,876
Richmond-Rosenberg Club	97,617
Social and Character Development (United Way)	80,026
Scholarships	32,208
Total subject to expenditure for specified purpose	1,596,951
Subject to passage of time:	
Unamortized contributed building and facility rights	719,347
Contributions receivable that are not purpose-restricted by donors, but which are unavailable until future periods	755,270
Total subject to passage of time	1,474,617
Endowment restricted in perpetuity	4,324,700
Total net assets with donor restrictions	$ 7,396,268

NOTE 13 – ENDOWMENT

Endowment net assets include a donor-restricted fund that Boys and Girls Clubs must hold in perpetuity, and whose earnings can be used for the general operations of Boys and Girls Clubs. The Foundation's Board of Trustees (the Board) is charged with preserving the corpus of the endowment, growing the total value of the endowment through investments and gifts, and financially supporting the mission and activities of Boys and Girls Clubs.

The Board has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Boys and Girls Clubs classifies the original value of gifts donated to the perpetual endowment as *net assets with donor restrictions* required to be maintained in perpetuity. The remaining portion of the donor-restricted endowment fund is classified as *net assets with donor restrictions* until those amounts are appropriated for expenditure in a manner consistent with the standards of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, Boys and Girls Clubs considers the duration and preservation of the fund in making a determination to appropriate or accumulate donor-restricted endowment funds.

Changes in net assets of the endowment funds are as follows:

	WITH DONOR RESTRICTIONS		
	ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	TOTAL
Endowment net assets, December 31, 2018	$ (289,645)	$ 4,324,700	$ 4,035,055
Net investment return	637,855		637,855
Appropriation	(154,000)		(154,000)
Endowment net assets, December 31, 2019	$ 194,210	$ 4,324,700	$ 4,518,910

Investment and Spending Policies

The Board approves amounts to be withdrawn from the endowment each year. No distributions from the corpus or principal is allowed. The target spending rate for long-term investments is expected to range from 4% to 6%. The amount to be spent in each coming year will be calculated by multiplying the spending rate by the lesser of: 1) a rolling 60-month average of the total portfolio value, or 2) the total portfolio value at the time of distribution. The investment policy adopted by Boys and Girls Clubs was established to maximize returns without undue exposure to risk and with the following objectives: a) maintain the purchasing power of the current assets and all future contributions which requires establishing an equilibrium spending rate of up to 5%, b) applying a smoothing rule to mitigate the effects of short-term market volatility on spending using a moving average of the last five years of the portfolio's market value, or the previous year's market portfolio, whichever is less, c) to maximize return within reasonable and prudent levels of risk, and d) maintain an appropriate asset allocation based on a total return policy that is compatible with an established spending rate, while still having the potential to produce positive real returns.

NOTE 14 – RELATED PARTY TRANSACTIONS

Boys and Girls Clubs is voluntarily affiliated with Boys and Girls Clubs of America (BGCA). In addition to participating in the Pension Trust (see Note 15), Boys and Girls Clubs pays dues to BGCA. In 2019, these dues totaled $17,288. Dues entitle Boys and Girls Clubs to staff training and program support and the opportunity to participate in grants arranged by BGCA. During 2019, Boys and Girls Clubs recognized $286,797 in grants directly from BGCA.

NOTE 15 – RETIREMENT PLANS

Effective January 2, 2018, Boys and Girls Clubs began sponsoring a 401(k) Safe Harbor Master Plan (401k Plan). All Boys and Girls Clubs employees with at least one year of service and who accumulate 1,000 hours of service in a year are eligible to participate in the Plan. Boys and Girls Clubs will contribute 3% of the participant's compensation for the plan year and employees are 100% vested after three years. Boys and Girls Clubs also may make a discretionary matching contribution in any amount. Boys and Girls Clubs contributions to the 401k Plan, net of forfeitures, during 2019 were $33,452.

Boys and Girls Clubs previously participated in a defined contribution retirement plan (Plan). Employees are vested under a 5-year vesting schedule. Effective February 28, 2018, Boys and Girls Clubs elected to freeze any future benefit accruals and Plan participation.

NOTE 16 – SUBSEQUENT EVENTS

On March 11, 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and on March 13, 2020, a national emergency was declared in the United States. Boys and Girls Clubs has been successful in pursuing financial relief under legislation passed by the Federal government and has been approved for a Paycheck Protection Program (PPP) loan in the amount of $1.16 million. Some or all of the PPP loan may be forgiven if Boys and Girls Clubs meets eligibility requirements and uses the loan to fund qualified payroll and other eligible costs. Management expects the loan to be fully forgiven. The extent of the impact of COVID-19 on Boys and Girls Clubs' operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on customers, donors, employees, and vendors all are uncertain and cannot be predicted. Therefore, while Boy and Girls Clubs expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

Management has evaluated subsequent events through August 6, 2020, which is the date that the financial statements were available for issuance. No other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.