

Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Financial Statements
and Single Audit Reports
for the year ended December 31, 2023

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 Audit of the Financial Statements

Opinion

We have audited the financial statements of Boys and Girls Clubs of Greater Houston, Inc., which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Boys and Girls Clubs of Greater Houston, Inc. as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Boys and Girls Clubs of Greater Houston, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Boys and Girls Clubs of Greater Houston, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Boys and Girls Clubs of Greater Houston, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Boys and Girls Clubs of Greater Houston, Inc.'s ability to continue as a going concern for a reasonable period of time.

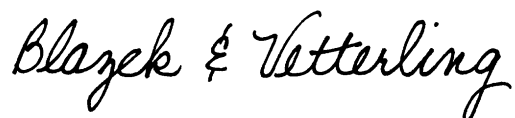
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended December 31, 2023 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2024 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.



August 2, 2024

Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Statements of Financial Position as of December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents <i>(Notes 3 and 5)</i>	\$ 2,266,942	\$ 3,471,788
Contributions receivable, net <i>(Note 4)</i>	2,798,646	3,535,288
Prepaid expenses and other assets	160,489	185,270
Operating investments <i>(Note 5)</i>	2,188,901	1,490,047
Endowment investments <i>(Note 5)</i>	5,085,972	4,616,969
Property and equipment, net <i>(Note 6)</i>	<u>9,634,781</u>	<u>10,070,875</u>
TOTAL ASSETS	<u>\$ 22,135,731</u>	<u>\$ 23,370,237</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 250,381	\$ 282,918
Accrued payroll expenses	598,213	617,393
Refundable advances	<u>8,000</u>	<u>108,000</u>
Total liabilities	<u>856,594</u>	<u>1,008,311</u>
Contingencies <i>(Notes 7 and 9)</i>		
Net assets:		
Without donor restrictions <i>(Note 10)</i>	13,170,520	13,993,582
With donor restrictions <i>(Notes 11 and 12)</i>	<u>8,108,617</u>	<u>8,368,344</u>
Total net assets	<u>21,279,137</u>	<u>22,361,926</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,135,731</u>	<u>\$ 23,370,237</u>

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, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government (Note 7):			
Nonfinancial (Note 8)		\$ 1,068,766	\$ 1,068,766
Cash and other financial		4,458,031	4,458,031
Non-government:			
Nonfinancial (Note 8)	\$ 1,246,105	538,027	1,784,132
Cash and other financial	2,857,629	3,087,390	5,945,019
Special events (net of donor benefits of \$377,404)	890,153		890,153
Net investment return	264,238	619,003	883,241
Loss on disposal of assets	(3,863)		(3,863)
Other	<u>83,548</u>		<u>83,548</u>
Total revenue	5,337,810	9,771,217	15,109,027
Net assets released from restrictions:			
Expiration of time restrictions	475,482	(475,482)	
Program expenditures	9,121,039	(9,121,039)	
Capital expenditures	<u>434,423</u>	<u>(434,423)</u>	
Total	<u>15,368,754</u>	<u>(259,727)</u>	<u>15,109,027</u>
EXPENSES:			
Program services	12,858,052		12,858,052
Management and general	2,109,147		2,109,147
Fundraising	<u>1,224,617</u>		<u>1,224,617</u>
Total expenses	<u>16,191,816</u>		<u>16,191,816</u>
CHANGES IN NET ASSETS	(823,062)	(259,727)	(1,082,789)
Net assets, beginning of year	<u>13,993,582</u>	<u>8,368,344</u>	<u>22,361,926</u>
Net assets, end of year	<u>\$ 13,170,520</u>	<u>\$ 8,108,617</u>	<u>\$ 21,279,137</u>

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, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government (<i>Note 7</i>):			
Nonfinancial (<i>Note 8</i>)		\$ 814,513	\$ 814,513
Cash and other financial		4,201,673	4,201,673
Non-government:			
Nonfinancial (<i>Note 8</i>)	\$ 1,045,401	316,419	1,361,820
Cash and other financial	3,054,388	3,876,662	6,931,050
Special events (net of donor benefits of \$388,424)	943,809		943,809
Net investment return	1,463	(726,211)	(724,748)
Loss on disposal of assets	(15,660)		(15,660)
Other	<u>80,144</u>		<u>80,144</u>
Total revenue	5,109,545	8,483,056	13,592,601
Net assets released from restrictions:			
Expiration of time restrictions	286,649	(286,649)	
Program expenditures	8,694,051	(8,694,051)	
Capital expenditures	<u>353,347</u>	<u>(353,347)</u>	
Total	<u>14,443,592</u>	<u>(850,991)</u>	<u>13,592,601</u>
EXPENSES:			
Program services	11,582,879		11,582,879
Management and general	1,856,019		1,856,019
Fundraising	<u>1,074,854</u>		<u>1,074,854</u>
Total expenses	<u>14,513,752</u>		<u>14,513,752</u>
CHANGES IN NET ASSETS	(70,160)	(850,991)	(921,151)
Net assets, beginning of year	<u>14,063,742</u>	<u>9,219,335</u>	<u>23,283,077</u>
Net assets, end of year	<u>\$ 13,993,582</u>	<u>\$ 8,368,344</u>	<u>\$ 22,361,926</u>

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, 2023

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related expenses	\$ 6,510,435	\$ 1,533,459	\$ 886,401	\$ 8,930,295
Food and supplies	1,772,237	26,577	39,562	1,838,376
Rent	1,355,311	23,012	23,012	1,401,335
Depreciation	889,076	17,065		906,141
Professional fees	404,529	140,546	122,262	667,337
Janitorial and maintenance	473,610	35,727	475	509,812
Supplies	400,561	22,954	13,709	437,224
Insurance	289,716	32,675	22,993	345,384
Information technology	200,105	80,405	24,253	304,763
Utilities	192,986			192,986
Contract services	22,278	96,117	38,926	157,321
Vehicle and transportation	105,182	5,014	4,658	114,854
Printing and postage	55,027	10,520	20,546	86,093
Telephone	58,239	22,218	3,291	83,748
Staff training	60,848	10,851	8,883	80,582
Advertising	6,046	44,488	6,684	57,218
Other	<u>61,866</u>	<u>7,519</u>	<u>8,962</u>	<u>78,347</u>
Total expenses	<u>\$ 12,858,052</u>	<u>\$ 2,109,147</u>	<u>\$ 1,224,617</u>	16,191,816
Donor benefits				<u>377,404</u>
Total				<u>\$ 16,569,220</u>

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, 2022

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related expenses	\$ 5,766,244	\$ 1,080,794	\$ 870,870	\$ 7,717,908
Food and supplies	1,275,465	24,618	13,935	1,314,018
Rent	1,157,428	17,312	23,012	1,197,752
Depreciation	910,499	18,022		928,521
Professional fees	152,926	191,313	39,279	383,518
Janitorial and maintenance	630,564	43,027	1,129	674,720
Supplies	606,401	64,646	19,297	690,344
Insurance	261,046	26,791	21,270	309,107
Information technology	118,677	68,540	20,654	207,871
Utilities	177,296			177,296
Contract services	184,759	115,661	33,800	334,220
Vehicle and transportation	125,842	5,004	3,100	133,946
Printing and postage	6,625	3,720	3,736	14,081
Telephone	55,147	21,146	3,285	79,578
Staff training	60,975	75,091	7,184	143,250
Advertising	6,275	86,471	9,707	102,453
Other	<u>86,710</u>	<u>13,863</u>	<u>4,596</u>	<u>105,169</u>
Total expenses	<u>\$ 11,582,879</u>	<u>\$ 1,856,019</u>	<u>\$ 1,074,854</u>	14,513,752
Donor benefits				<u>388,424</u>
Total				<u>\$ 14,902,176</u>

See accompanying notes to consolidated financial statements.

Boys and Girls Clubs of Greater Houston, Inc.

Consolidated Statements of Cash Flows for the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (1,082,789)	\$ (921,151)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for endowment	10,000	10,000
Contributions restricted for capital improvements	717,669	480,766
Depreciation	906,141	928,521
Loss on disposal of assets	3,863	15,660
Net realized and unrealized (gain) loss on investments	(578,921)	867,328
Changes in operating assets and liabilities:		
Contributions receivable	736,642	23,043
Prepaid expenses and other assets	24,781	(61,012)
Accounts payable and accrued expenses	(51,717)	318,046
Refundable advances	(100,000)	108,000
Paycheck Protection Program refundable advance	<u> </u>	<u>(901,277)</u>
Net cash provided by operating activities	<u>585,669</u>	<u>867,924</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(473,910)	(786,713)
Proceeds from sale of land		72,462
Purchases of investments	(5,534,386)	(2,142,691)
Proceeds from sales of investments	4,977,433	1,835,446
Change in money market mutual funds held as investments	<u>(31,983)</u>	<u>341,981</u>
Net cash used by investing activities	<u>(1,062,846)</u>	<u>(679,515)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for endowment	(10,000)	(10,000)
Proceeds from contributions restricted for capital improvements	<u>(717,669)</u>	<u>(480,766)</u>
Net cash used by financing activities	<u>(727,669)</u>	<u>(490,766)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,204,846)	(302,357)
Cash and cash equivalents, beginning of year	<u>3,471,788</u>	<u>3,774,145</u>
Cash and cash equivalents, end of year	<u>\$ 2,266,942</u>	<u>\$ 3,471,788</u>

See accompanying notes to consolidated financial statements.

Boys and Girls Clubs of Greater Houston, Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2023 and 2022

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 24 clubs were in operation in 2023 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 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 taxes 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)(vi). The Foundation is classified as a Type I supporting organization under §509(a)(3).

Cash equivalents consists of 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 promises are received. Amortization of discounts is included in contribution 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 additions and improvements with a cost of \$2,500 or more. Depreciation is provided using the straight-line method over estimated useful lives ranging from 3 to 39 years. Leasehold improvements are depreciated over the term of the lease.

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*. 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.

Contributed nonfinancial assets 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.

Special events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events revenue is recognized when the events occur. Amounts received for future events represent conditional contributions and are reported in the statement of financial position as deferred revenue until earned. Donor benefits 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 comprise the following:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 2,266,942	\$ 3,471,788
Contributions receivable, net	2,798,646	3,535,288
Investments	<u>7,274,873</u>	<u>6,107,016</u>
Total financial assets	12,340,461	13,114,092
Less financial assets not available for general expenditure:		
Donor-restricted endowment, less estimated appropriation	(4,912,172)	(4,456,969)
Donor-restricted assets subject to satisfaction of restriction and the passage of time	(723,254)	(1,657,986)
Board-designated operating reserve	<u>(2,420,196)</u>	<u>(1,657,927)</u>
Total financial assets available for general expenditure	<u>\$ 4,284,839</u>	<u>\$ 5,341,210</u>

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. The Board of Directors has designated a portion of its resources without donor restrictions. These funds remain available to be spent at the discretion of the Board of Directors.

NOTE 3 – CASH AND CASH EQUIVALENTS

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

	<u>2023</u>	<u>2022</u>
Bank deposits	\$ 228,162	\$ 181,014
Money market mutual funds	2,036,442	3,287,907
Petty cash	<u>2,338</u>	<u>2,867</u>
Total cash and cash equivalents	<u>\$ 2,266,942</u>	<u>\$ 3,471,788</u>

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31 are as follows:

	<u>2023</u>	<u>2022</u>
Contributions receivable	\$ 2,798,646	\$ 3,556,819
Discount to net present value at 4.22%		<u>(21,531)</u>
Contributions receivable, net	<u>\$ 2,798,646</u>	<u>\$ 3,535,288</u>

Contributions receivable at December 31, 2023 are expected to be collected as follows:

2024	\$ 2,748,646
2025	<u>50,000</u>
Total contributions receivable	<u>\$ 2,798,646</u>

Concentration – Three donors represent 34% of the contributions receivable balance outstanding at December 31, 2023. Four donors represent 51% of the contributions receivable balance outstanding at December 31, 2022.

Conditional contributions from government agencies – At December 31, 2023, Boys and Girls Clubs has approximately \$684,000 of conditional contributions from various government agencies. The contributions will be recognized as revenue when the conditions are met, which include performance of allowable activities and incurring allowable expenses.

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

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, 2023 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity exchange-traded funds	\$ 3,852,078			\$ 3,852,078
Fixed-income exchange-traded funds	3,337,039			3,337,039
Money market mutual funds	<u>85,756</u>			<u>85,756</u>
Total investments	7,274,873			7,274,873
Money market mutual funds held as cash equivalents	<u>2,036,442</u>			<u>2,036,442</u>
Total assets measured at fair value	<u>\$ 9,311,315</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,311,315</u>

Assets measured at fair value at December 31, 2022 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity exchange-traded funds	\$ 3,487,127			\$ 3,487,127
Fixed-income exchange-traded funds	2,566,116			2,566,116
Money market mutual funds	<u>53,773</u>			<u>53,773</u>
Total investments	6,107,016			6,107,016
Money market mutual funds held as cash equivalents	<u>3,287,907</u>			<u>3,287,907</u>
Total assets measured at fair value	<u>\$ 9,394,923</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,394,923</u>

Valuation methods used for assets measured at fair value are as follows:

- *Exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the reported net asset value.

These valuation methods 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 methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments at December 31 consist of the following:

	<u>2023</u>	<u>2022</u>
Equity exchange-traded funds	\$ 3,852,078	\$ 3,487,127
Fixed-income exchange-traded funds	3,337,039	2,566,116
Money market mutual funds	<u>85,756</u>	<u>53,773</u>
Total investments	7,274,873	6,107,016
Less: Investments without donor restrictions	<u>(2,188,901)</u>	<u>(1,490,047)</u>
Total investments restricted for endowment	<u>\$ 5,085,972</u>	<u>\$ 4,616,969</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment at December 31 consists of the following:

	<u>2023</u>	<u>2022</u>
Building and improvements	\$ 13,094,128	\$ 12,651,146
Contributed building and facility rights	2,050,000	2,050,000
Software	1,470,080	1,470,080
Land	776,401	776,401
Equipment and fixtures	843,850	763,890
Transportation equipment	514,178	530,428
Construction in progress	<u>30,284</u>	<u>88,017</u>
Total property and equipment, at cost	18,778,921	18,329,962
Accumulated depreciation	<u>(9,144,140)</u>	<u>(8,259,087)</u>
Property and equipment, net	<u>\$ 9,634,781</u>	<u>\$ 10,070,875</u>

Depreciation expense of \$906,141 and \$928,521 was recognized in the years ended December 31, 2023 and 2022.

Contributed building and facility rights – Boys and Girls Clubs is provided use of building and facility rights under the terms of a contributed facility agreement, which is being depreciated over the life of the lease. The Spring Branch facility agreement expires in 2031.

NOTE 7 – CONTRIBUTIONS FROM GOVERNMENT AGENCIES

Boys and Girls Clubs is a party to contracts with federal, state, and local 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 consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
U. S. Department of Education	\$ 1,820,952	\$ 1,501,405
U. S. Department of Agriculture (food commodities)	1,068,766	814,513
U. S. Department of Justice	492,719	477,014
U. S. Department of Treasury	237,500	237,500
U. S. Department of Health and Human Services	154,538	197,195
U. S. Department of Labor	98,441	114,473
U. S. Small Business Administration (Paycheck Protection Program)		901,277
State and local grants	<u>1,653,881</u>	<u>772,809</u>
Total government grants	<u>\$ 5,526,797</u>	<u>\$ 5,016,186</u>

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 – NONFINANCIAL CONTRIBUTIONS

Boys and Girls Clubs recognized the following nonfinancial contributions:

CONTRIBUTED NONFINANCIAL ASSETS	MONETIZED OR UTILIZED IN PROGRAMS/ACTIVITIES	DONOR RESTRICTIONS	VALUATION TECHNIQUES AND INPUTS	2023	2022
Food commodities	Used in programs	Preparation of meals served in eligible schools	Fair value of food donated is based on an average fair value per standard bag of food distributed.	\$1,606,793	\$1,130,932
Facilities	Used in programs	None	Fair value estimated at the average price per square foot of similar properties.	\$1,208,256	\$1,009,825
Materials and supplies	Used in programs	None	Fair value estimated based on current rates for similar products.	\$37,849	\$35,576
Total contributed nonfinancial assets				<u>\$2,852,898</u>	<u>\$2,176,333</u>

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 – COMMITMENTS AND CONTINGENCIES

Boys and Girls Clubs has a \$1,000,000 bank line of credit that expires on September 30, 2024 and bears interest at prime minus .250% which is 8.25% at December 31, 2023. Advances under this agreement are due on demand, or the expiration date, if a demand has not been made. The line of credit is unsecured. There is no outstanding balance at December 31, 2023.

Boys and Girls Clubs has been named a defendant in a civil lawsuit alleging responsibility for alleged past actions of a former employee. The organization has engaged legal counsel and it is their intention to vigorously defend the litigation. Boys and Girls Clubs believes it has maintained appropriate policies and procedures to reasonably guard against such occurrences and expects the matter to be resolved without material loss to Boys and Girls Clubs.

NOTE 10 – NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	2023	2022
Undesignated	\$ 10,750,324	\$ 12,335,655
Board-designated operating reserve	<u>2,420,196</u>	<u>1,657,927</u>
Total net assets without donor restrictions	<u>\$ 13,170,520</u>	<u>\$ 13,993,582</u>

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Capital improvements	\$ 628,680	\$ 345,434
Fort Bend Clubs	500,000	978,469
Scholarships	416,402	373,082
Galveston Clubs	190,000	150,000
Social and Character Development (United Way)	176,562	176,562
Cristo Rey Jesuit Club	132,500	250,000
Healthy lifestyles	120,000	2,333
Workforce readiness	25,000	61,667
Richmond-Rosenberg Club capital improvements	19,845	19,845
Wharton Clubs		365,000
Texans Teen Club		150,000
Academic success		<u>17,500</u>
Total subject to expenditure for specified purpose	<u>2,208,989</u>	<u>2,889,892</u>
Subject to passage of time:		
Contributions receivable that are not purpose-restricted by donors, but which are unavailable until future periods	429,555	423,833
Undepreciated contributed building and facility rights	<u>386,001</u>	<u>437,650</u>
Total subject to passage of time	<u>815,556</u>	<u>861,483</u>
General endowment subject to spending policy and appropriation	<u>5,084,072</u>	<u>4,616,969</u>
Total net assets with donor restrictions	<u>\$ 8,108,617</u>	<u>\$ 8,368,344</u>

NOTE 12 – 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:

	<u>WITH DONOR RESTRICTIONS</u>		<u>TOTAL</u>
	<u>ACCUMULATED NET INVESTMENT RETURN</u>	<u>REQUIRED TO BE MAINTAINED IN PERPETUITY</u>	
Endowment net assets, December 31, 2021	\$ 1,148,780	\$ 4,344,700	\$ 5,493,480
Contributions		10,000	10,000
Net investment return	(726,211)		(726,211)
Appropriation	<u>(160,300)</u>		<u>(160,300)</u>
Endowment net assets, December 31, 2022	262,269	4,354,700	4,616,969
Contributions		10,000	10,000
Net investment return	619,003		619,003
Appropriation	<u>(161,900)</u>		<u>(161,900)</u>
Endowment net assets, December 31, 2023	<u>\$ 719,372</u>	<u>\$ 4,364,700</u>	<u>\$ 5,084,072</u>

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 2.5% to 5.0%. 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 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 13 – RELATED PARTY TRANSACTIONS

Boys and Girls Clubs is voluntarily affiliated with Boys and Girls Clubs of America (BGCA) and pays dues to BGCA. In 2023 and 2022, these dues totaled \$30,900 and \$29,560, respectively. Dues entitle Boys and Girls Clubs to staff training and program support and the opportunity to participate in grants arranged by BGCA. Boys and Girls Clubs recognized \$430,711 and \$592,932 in contributions directly from BGCA in 2023 and 2022, respectively.

NOTE 14 – RETIREMENT PLAN

Boys and Girls Clubs sponsors a 401(k) Safe Harbor Master Plan (401(k) 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 401(k) Plan. Boys and Girls Clubs contributes 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 contributed, net of forfeitures, approximately \$207,000 and \$189,000 to the 401(k) Plan during the years ended December 31, 2023 and 2022, respectively.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 2, 2024, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Boys and Girls Clubs of Greater Houston, Inc.

Schedule of Expenditures of Federal Awards for the year ended December 31, 2023

<u>Federal Grantor Program Title and Period</u>	<u>Assistance Listing Number</u>	<u>Contract Number</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE				
Passed through The Houston Food Bank: Emergency Food Assistance Program (Food Commodities) Food Distribution Cluster				
#1 01/01/23 – 12/31/23	10.569	101-0452K9	\$1,068,766	<u>\$ 1,068,766</u>
Total U. S. Department of Agriculture				<u>1,068,766</u>
U. S. DEPARTMENT OF JUSTICE				
Passed through Boys and Girls Clubs of America: Juvenile Mentoring Program – Mentoring Opportunities for Youth Initiatives				
#2 10/01/21 – 06/30/22	16.726	2020-JU-FX-0029-2020-49056	\$39,000	15,000
#3 10/01/21 – 06/30/22	16.726	2020-JU-FX-0029-2020-49057	\$35,000	11,000
#4 10/01/21 – 06/30/22	16.726	2020-JU-FX-0029-2020-49058	\$31,000	10,200
#5 10/01/21 – 06/30/22	16.726	2020-JU-FX-0029-2020-49059	\$50,000	16,400
#6 10/01/21 – 06/30/22	16.726	2020-JU-FX-0029-2020-49061	\$59,000	25,400
#7 10/01/21 – 06/30/22	16.726	2020-JU-FX-0029-2020-49062	\$45,000	13,000
#8 10/01/21 – 06/30/22	16.726	2020-JU-FX-0029-2020-49063	\$51,819	24,619
#9 10/01/21 – 06/30/22	16.726	2020-JU-FX-0029-2020-49064	\$26,000	9,200
#10 10/01/21 – 06/30/22	16.726	2020-JU-FX-0029-2020-49065	\$36,000	11,200
#11 10/01/21 – 06/30/22	16.726	2020-JU-FX-0029-2020-49066	\$50,000	16,400
#12 10/01/21 – 06/30/22	16.726	2020-JU-FX-0029-2020-49067	\$28,000	16,800
#13 01/05/23 – 12/31/23	16.726	15JDP-22-GG-01746-2022-51950	\$25,500	25,500
#14 01/05/23 – 12/31/23	16.726	15JDP-22-GG-01746-2022-51951	\$15,000	15,000
#15 01/05/23 – 12/31/23	16.726	15JDP-22-GG-01746-2022-51952	\$24,000	24,000
#16 01/05/23 – 12/31/23	16.726	15JDP-22-GG-01746-2022-51953	\$24,000	24,000
#17 01/05/23 – 12/31/23	16.726	15JDP-22-GG-01746-2022-51954	\$20,000	20,000
#18 01/05/23 – 12/31/23	16.726	15JDP-22-GG-01746-2022-51955	\$34,000	34,000
#19 01/05/23 – 12/31/23	16.726	15JDP-22-GG-01746-2022-51956	\$34,000	34,000
#20 01/05/23 – 12/31/23	16.726	15JDP-22-GG-01746-2022-51957	\$32,000	32,000
#21 01/05/23 – 12/31/23	16.726	15JDP-22-GG-01746-2022-51958	\$27,000	27,000
#22 01/05/23 – 12/31/23	16.726	15JDP-22-GG-01746-2022-51959	\$18,000	18,000
#23 01/05/23 – 12/31/23	16.726	15JDP-22-GG-01746-2022-51960	\$24,000	24,000
#24 01/05/23 – 12/31/23	16.726	15JDP-22-GG-01746-2022-51961	\$34,000	34,000
#25 01/05/23 – 12/31/23	16.726	15JDP-22-GG-01746-2022-51962	\$12,000	<u>12,000</u>
Total U. S. Department of Justice				<u>492,719</u>
U. S. DEPARTMENT OF LABOR				
Passed through Boys and Girls Clubs of America: WIOA Pilots, Demonstrations, and Research Projects – Workforce Pathways for Youth Grant Program				
#26 07/01/21 – 06/30/24	17.261	MI-36498-21-60-A-13-01	\$300,000	<u>98,441</u>
Total U. S. Department of Labor				<u>98,441</u>

(continued)

Boys and Girls Clubs of Greater Houston, Inc.

Schedule of Expenditures of Federal Awards for the year ended December 31, 2023 *(continued)*

<u>Federal Grantor Program Title and Period</u>	<u>Assistance Listing Number</u>	<u>Contract Number</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
U. S. DEPARTMENT OF TREASURY				
Passed through Fort Bend County:				
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds				
#27 03/03/21 – 12/31/24	21.027	None	\$475,000	<u>237,500</u>
Total U. S. Department of Treasury				<u>237,500</u>
U. S. DEPARTMENT OF EDUCATION				
Passed through Texas Education Agency:				
Twenty-First Century Community Learning Centers				
#28 08/01/22 – 08/31/23	84.287	236950267110011	\$825,000	<u>489,491</u>
Total 84.287				<u>489,491</u>
Passed through Texas Education Agency:				
COVID-19 – Education Stabilization Fund				
#29 01/31/22 – 05/31/24	84.425U	215280587110020	\$1,112,500	608,208
Passed through Lamar Consolidated Independent School District:				
COVID-19 – Education Stabilization Fund				
#30 09/01/22 – 06/30/24	84.425U	None	\$830,000	432,146
Passed through Wharton Independent School District:				
COVID-19 – Education Stabilization Fund				
#31 01/01/22 – 06/30/24	84.425U	None	\$669,036	<u>291,107</u>
Total 84.425U				<u>1,331,461</u>
Total U. S. Department of Education				<u>1,820,952</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through Texas A&M University Health Science Center:				
Immunization Cooperative Agreements				
#32 05/11/22 – 05/10/23	93.268	M2202132	\$328,299	<u>154,538</u>
Total U. S. Department of Health and Human Services				<u>154,538</u>
TOTAL FEDERAL AWARDS				<u>\$ 3,872,916</u>

See accompanying notes to schedule of expenditures of federal awards.

Boys and Girls Clubs of Greater Houston, Inc.

Notes to Schedule of Expenditures of Federal Awards for the year ended December 31, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards (the schedule) is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Federal expenses include allowable costs funded by federal grants. Allowable costs are subject to the cost principles of the Uniform Guidance and include costs that are recognized as expenses in Boys and Girls Clubs' financial statements in conformity with generally accepted accounting principles. Boys and Girls Clubs does not utilize the 10% de minimus cost rate for indirect costs and does not have subrecipients.

Because the schedule presents only a selected portion of the operations of Boys and Girls Clubs, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Boys and Girls Clubs.

NOTE 2 – FOOD COMMODITIES

Food commodities are reported in the schedule of expenditures of federal awards as federal expenditures when distributed and are valued at the weighted-average wholesale value of one pound of donated product based on the national per pound price as provided by the most recent Feeding America Product Valuation Survey (\$1.93 in 2023).

**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

We have audited, 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, the financial statements of Boys and Girls Clubs of Greater Houston, Inc. (Boys and Girls Clubs), which comprise the consolidated statement of financial position as of December 31, 2023 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, and have issued our report thereon dated August 2, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Boys and Girls Clubs' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Boys and Girls Clubs' internal control. Accordingly, we do not express an opinion on the effectiveness of Boys and Girls Clubs' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs as item #2023-001, are identified a deficiency in internal control that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Boys and Girls Clubs' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Boys and Girls Clubs' Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on Boys and Girls Clubs' response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. Boys and Girls Clubs' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blazek & Vetterling

August 2, 2024

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Boys and Girls Clubs of Greater Houston, Inc.'s (Boys and Girls Clubs) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Boys and Girls Clubs' major federal programs for the year ended December 31, 2023. Boys and Girls Clubs' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on ALN 84.425U, COVID-19 Education Stabilization Fund

In our opinion, except for the noncompliance described in the Basis for Qualified and Unqualified Opinions Section of our report, Boys and Girls Clubs complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on ANL 84.425U COVID-19 Education Stabilization Fund for the year ended December 31, 2023.

Unmodified Opinion on the Other Major Federal Program

In our opinion, Boys and Girls Clubs complied, in all material respects, with the compliance requirements referred to about that could have a direct and material effect on its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2023.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditors' Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of Boys and Girls Clubs and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Boys and Girls Clubs' compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on ANL 84-425U COVID-10 Education Stabilization Fund

As described in the accompanying schedule of findings and questioned costs, Boys and Girls Clubs did not comply with the requirements regarding the Education Stabilization Fund as described in finding number #2023-003 for Allowable Costs.

Compliance with such requirements is necessary, in our opinion, for Boys and Girls Clubs to comply with the requirements applicable to the program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Boys and Girls Clubs' federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Boys and Girls' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Boys and Girls Clubs' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Boys and Girls Clubs' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Boys and Girls Clubs' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Boys and Girls Clubs' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditors' Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type

of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items #2023-002 and #2023-003 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Boys and Girls Clubs' response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Boys and Girls Clubs' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blazek & Vetterling

August 2, 2024

Boys and Girls Clubs of Greater Houston, Inc.

Schedule of Findings and Questioned Costs for the year ended December 31, 2023

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: unmodified qualified adverse disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to the financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditors’ report issued on compliance for major programs: unmodified qualified adverse disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)? yes no

Identification of major programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Program or Cluster</u>
10.569	Emergency Food Assistance Program
84.425U	COVID-19 – Education Stabilization Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? yes no

Section II – Financial Statement Findings

Finding #2023-001 – Material Weakness

Criteria: Effective internal control policies and procedures requires that appropriate documentation of approved salaries or pay rates be obtained and retained.

Condition and context: In a sample of 25 individuals, evidence of approved pay rates were not available for any of the sample.

Cause: Historically, pay rates were approved via email and were not documented in each employee’s personnel file. There was turnover in the Vice President of Human Resources role during the year and the emails were lost.

Effect: Lack of appropriate documentation and retention of approved pay rates could result in unauthorized cash disbursements due to fraud or error.

Recommendation: Strengthen policies and procedures to require pay rate approvals be documented and retained in employee personnel files.

Views of responsible officials and planned corrective actions: Management agrees with the finding. See Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs

Finding #2023-002 – Material Weakness

Applicable federal program:

U. S. Department of Education
COVID-19 – Education Stabilization Fund
Assistance Listing #84.425U
Passed through Texas Education Agency
Contract period: 01/31/22 – 05/31/24
Contract number: 215280587110020

Passed through Lamar Consolidated Independent School District
Contract period: 09/01/22 – 06/30/24
Contract number: None

Passed through Wharton Independent School District
Contract period: 01/01/22 – 06/30/24
Contract number: None

Criteria: Allowable costs – Same as finding #2023-001.

Condition and context: Same as finding #2023-001.

Cause: Same as finding #2023-001.

Effect: Same as finding #2023-001.

Questioned costs: Unknown

Recommendation: Same as finding #2023-001.

Views of responsible officials and planned corrective actions: Management agrees with the finding. See Corrective Action Plan.

Finding #2023-003 – Material Weakness and Material Noncompliance

Applicable federal program:

U. S. Department of Education
COVID-19 – Education Stabilization Fund
Assistance Listing #84.425U
Passed through Texas Education Agency
Contract period: 01/31/22 – 05/31/24
Contract number: 215280587110020

Passed through Lamar Consolidated Independent School District
Contract period: 09/01/22 – 06/30/24
Contract number: None

Passed through Wharton Independent School District
Contract period: 01/01/22 – 06/30/24
Contract number: None

Criteria: Allowable costs – The *Uniform Guidance, Subpart E Cost Principles*, requires that charges to federal awards for salaries and wages be based on records that accurately reflect work performed and support the distribution of an employee’s salary or wages among specific activities or cost objectives, which includes being supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

Condition and context: In a sample of 30 payroll transactions, 7 did not have timesheets to support the allocation of salary costs charged to the major program; however, 1 of the 7 was charged 100% to the award. Further investigation revealed that Boys and Girls Clubs did not require time and effort reporting for program management personnel whose time charged to the awards totaled approximately \$245,000.

Cause: A lack of understanding that all time charged to the award must be supported by time and effort reporting.

Effect: Failure to establish controls for adherence with the Uniform Guidance for allowable costs may result in unallowed costs charged to the program.

Questioned costs: Unknown

Recommendation: Strengthen controls to require time and effort reporting of actual time incurred for all salaries and wages charged to federal programs.

Views of responsible officials and planned corrective actions: Management agrees with the finding. See Corrective Action Plan.



CORRECTIVE ACTION PLAN

August 2, 2024

U. S. Department of Education

Boys and Girls Clubs of Greater Houston, Inc. (Boys and Girls Clubs) respectfully submits the following Corrective Action Plan for the year ended December 31, 2023. The audit was performed by: Blazek & Vetterling, 2900 Wesleyan, Suite 200, Houston, Texas, 77027.

The findings from the December 31, 2023 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINANCIAL STATEMENT AND FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Findings #2023-001 – Material Weakness

Condition and context: In a sample of 25 individuals, evidence of approved pay rates were not available for any of the sample.

Recommendation: Strengthen policies and procedures to require pay rate approvals be documented and retained in employee personnel files.

Planned corrective action: Boys and Girls Clubs has implemented the following changes related to improving formal documentation of approved pay rate changes for personnel:

- a. The Vice President of Human Resources shall submit a final email request to the President/CEO requesting approval for pay rate changes and bonuses specific to annual merit (performance) pay rate changes and annual bonuses. The Vice President of Finance and Business Operations shall be copied on the communication and retain it for auditing purposes, along with spreadsheets documenting the final pay rates and bonuses.
- b. Once annual merits and bonuses are approved, the Human Resources department shall prepare individual documents for all impacted employees that disclose the final merit increase, impact on annual salary and final bonus payout. The document shall be retained by Human Resources in the employee file.
- c. For new hires, pay rates will be documented with a formal offer letter to the candidate and shall be sent to the candidate. Candidates shall sign the offer letter and return to Human Resources and Human Resources shall place the letter in the employee file.
- d. All other employee pay rate changes due to promotions, demotions, status changes, or separation from the organization will be documented with a personnel action form (PAF) in human resources information system.

Responsible officer: Jonathan Sturgis, Vice President Finance and Business Operations

Estimated completion date: June 30, 2024

Finding #2023-002 – Material Weakness

Applicable federal program:

U. S. Department of Education
COVID-19 – Education Stabilization Fund
Assistance Listing #84.425U
Passed through Texas Education Agency
Contract period: 01/31/22 – 05/31/24
Contract number: 215280587110020

Passed through Lamar Consolidated Independent School District
Contract period: 09/01/22 – 06/30/24
Contract number: None

Passed through Wharton Independent School District
Contract period: 01/01/22 – 06/30/24
Contract number: None

Condition and context: Same as finding #2023-001.

Recommendation: Same as finding #2023-001.

Planned corrective action: See finding #2023-001.

Responsible officer: Jonathan Sturgis, Vice President Finance and Business Operations

Estimated completion date: June 30, 2024

Finding #2023-003 – Material Weakness and Material Noncompliance

Applicable federal program:

U. S. Department of Education
COVID-19 – Education Stabilization Fund
Assistance Listing #84.425U
Passed through Texas Education Agency
Contract period: 01/31/22 – 05/31/24
Contract number: 215280587110020

Passed through Lamar Consolidated Independent School District
Contract period: 09/01/22 – 06/30/24
Contract number: None

Passed through Wharton Independent School District
Contract period: 01/01/22 – 06/30/24
Contract number: None

Condition and context: In a sample of 30 payroll transactions, 7 did not have timesheets to support the allocation of salary costs charged to the major program; however, 1 of the 7 was charged 100% to the award. Further investigation revealed that Boys and Girls Clubs did not require time and effort reporting for program management personnel whose time charged to the awards totaled approximately \$245,000.

Recommendation: Strengthen controls to require time and effort reporting of actual time incurred for all salaries and wages charged to federal programs.

Planned corrective action: Boys and Girls Clubs shall implement tighter controls related to accurately documenting time and effort allocations to grants by:

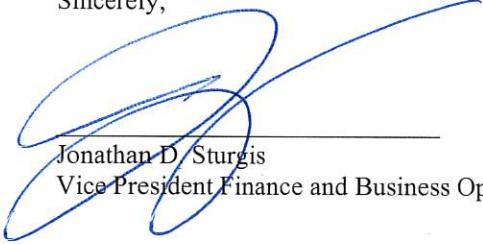
- a. The Vice President of Finance and Business Operations shall implement a Bi-Weekly Activity Report for administrative salaried personnel on a timeline that aligns with the payroll period cycle. Administrative personnel will be trained on the use of the Bi-Weekly Activity Reports. The Bi-Weekly Activity Report shall be filled out by the employee detailing their activity for the period and shall be signed by their immediate Supervisor and then provided back to the Finance Department. Time and Effort reporting for Club Staff will continue to be documented using the bi-weekly timesheets produced from the Payroll system.

Responsible officer: Jonathan Sturgis, Vice President Finance and Business Operations

Estimated completion date: June 30, 2024

If the U. S. Department of Education has questions regarding this plan, please call Jonathan D. Sturgis at (713) 400-2953.

Sincerely,



Jonathan D. Sturgis
Vice President Finance and Business Operations



Summary Schedule of Prior Audit Findings

The following audit finding for the year ended December 31, 2022 is required to be reported in accordance with 2 CFR §200.511.

Finding #2022-001 – Significant Deficiency and Other Noncompliance

Condition and context: Of the two expenditures charged to the grant, which met or exceeded Boys and Girls Clubs’ micro-purchase threshold, one did not go through a procurement process in accordance with Boys and Girls Clubs’ policies and the Uniform Guidance.

Recommendation: Provide additional education to employees responsible for procurement on Boys and Girls Clubs’ procurement policy.

Planned corrective action: Boys and Girls Clubs will review and update the procurement policy. Boys and Girls Clubs will also train personnel on the procurement policy to ensure that the requirements of the Boys and Girls Clubs policy and Uniform Guidance are met.

Management’s 2023 follow-up response: Completed