

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2012 AND 2011**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Boys and Girls Country of Houston, Inc.  
Hockley, Texas

We have audited the accompanying financial statements of Boys and Girls Country of Houston, Inc. (a non-profit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys and Girls Country of Houston, Inc. as of December 31, 2012 and 2011, and the changes in its nets assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

*Harper & Pearson Company, P.C.*

Houston, Texas  
September 9, 2013

**BOYS AND GIRLS COUNTRY OF HOUSTON, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2012 AND 2011**

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
Cash	\$ 688,164	\$ 564,647
Investments	1,418,475	1,474,164
Receivables		
Pledges receivable, net	1,232,037	1,086,991
Other receivables	259,906	429,653
Prepaid expenses and other assets	151,786	266,667
Interest in net assets of the Endowment Fund	13,699,592	11,545,462
Property and equipment, net	<u>8,879,100</u>	<u>9,182,162</u>
 TOTAL ASSETS	 <u>\$ 26,329,060</u>	 <u>\$ 24,549,746</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 348,955	\$ 166,905
Accrued salaries and benefits	95,670	117,664
Funds held for residents	44,840	90,464
Deferred compensation	<u>163,616</u>	<u>138,264</u>
 TOTAL LIABILITIES	 <u>653,081</u>	 <u>513,297</u>
 <b>NET ASSETS</b>		
Unrestricted	12,475,396	12,650,476
Temporarily restricted	7,829,350	7,396,906
Permanently restricted	<u>5,371,233</u>	<u>3,989,067</u>
 TOTAL NET ASSETS	 <u>25,675,979</u>	 <u>24,036,449</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 26,329,060</u>	 <u>\$ 24,549,746</u>

**BOYS AND GIRLS COUNTRY OF HOUSTON, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING REVENUES</b>				
Contributions	\$ 1,644,329	\$ 1,749,835	\$ -	\$ 3,394,164
Special events	3,263,590	-	-	3,263,590
Direct donor benefit costs	(589,569)	-	-	(589,569)
Reimbursement for care	259,130	-	-	259,130
Other income	<u>297,746</u>	<u>-</u>	<u>-</u>	<u>297,746</u>
 Total Operating Revenue	 4,875,226	 1,749,835	 -	 6,625,061
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>				
Capital expenditures	427,631	(427,631)	-	-
Expenditures for program purposes	618,864	(618,864)	-	-
Expiration of time restrictions	42,860	(42,860)	-	-
Grant to Endowment Fund	<u>-</u>	<u>(1,000,000)</u>	<u>1,000,000</u>	<u>-</u>
 Total Revenues and Support	 <u>5,964,581</u>	 <u>(339,520)</u>	 <u>1,000,000</u>	 <u>6,625,061</u>
<b>EXPENSES</b>				
Program services	5,249,211	-	-	5,249,211
Management and general	355,819	-	-	355,819
Fund raising	<u>534,631</u>	<u>-</u>	<u>-</u>	<u>534,631</u>
 Total Expenses	 <u>6,139,661</u>	 <u>-</u>	 <u>-</u>	 <u>6,139,661</u>
 CHANGE IN NET ASSETS FROM OPERATIONS	 (175,080)	 (339,520)	 1,000,000	 485,400
 CHANGE IN INTEREST IN ENDOWMENT FUND	 <u>-</u>	 <u>771,964</u>	 <u>382,166</u>	 <u>1,154,130</u>
 CHANGES IN NET ASSETS	 (175,080)	 432,444	 1,382,166	 1,639,530
 NET ASSETS, BEGINNING OF YEAR	 <u>12,650,476</u>	 <u>7,396,906</u>	 <u>3,989,067</u>	 <u>24,036,449</u>
 NET ASSETS, END OF YEAR	 <u>\$ 12,475,396</u>	 <u>\$ 7,829,350</u>	 <u>\$ 5,371,233</u>	 <u>\$ 25,675,979</u>

See accompanying notes.

**BOYS AND GIRLS COUNTRY OF HOUSTON, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING REVENUES</b>				
Contributions	\$ 1,784,931	\$ 1,084,443	\$ -	\$ 2,869,374
Special events	2,480,051	-	-	2,480,051
Direct donor benefit costs	(351,722)	-	-	(351,722)
Reimbursement for care	270,877	-	-	270,877
Other income	<u>356,432</u>	<u>-</u>	<u>-</u>	<u>356,432</u>
 Total Operating Revenue	 4,540,569	 1,084,443	 -	 5,625,012
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>				
Capital expenditures	1,313,940	(1,313,940)	-	-
Expenditure for program purposes	394,572	(394,572)	-	-
Expiration of time restrictions	<u>245,375</u>	<u>(245,375)</u>	<u>-</u>	<u>-</u>
 Total Revenues and Support	 <u>6,494,456</u>	 <u>(869,444)</u>	 <u>-</u>	 <u>5,625,012</u>
<b>EXPENSES</b>				
Program services	5,323,179	-	-	5,323,179
Management and general	339,267	-	-	339,267
Fund raising	<u>395,400</u>	<u>-</u>	<u>-</u>	<u>395,400</u>
 Total Expenses	 <u>6,057,846</u>	 <u>-</u>	 <u>-</u>	 <u>6,057,846</u>
 CHANGE IN NET ASSETS FROM OPERATIONS	 436,610	 (869,444)	 -	 (432,834)
 CHANGE IN INTEREST IN ENDOWMENT FUND	 <u>-</u>	 <u>543,844</u>	 <u>29,476</u>	 <u>573,320</u>
 CHANGES IN NET ASSETS	 436,610	 (325,600)	 29,476	 140,486
 NET ASSETS, BEGINNING OF YEAR	 <u>12,213,866</u>	 <u>7,722,506</u>	 <u>3,959,591</u>	 <u>23,895,963</u>
 NET ASSETS, END OF YEAR	 <u>\$ 12,650,476</u>	 <u>\$ 7,396,906</u>	 <u>\$ 3,989,067</u>	 <u>\$ 24,036,449</u>

See accompanying notes.

**BOYS AND GIRLS COUNTRY OF HOUSTON, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries and employee benefits	\$ 3,147,506	\$ 212,772	\$ 231,224	\$ 3,591,502
Depreciation	776,004	52,909	52,909	881,822
Utilities and telephone	286,028	19,502	19,502	325,032
Maintenance and operation of properties and vehicles	289,024	15,220	15,220	319,464
Activities and education support	314,390	620	620	315,630
Insurance	161,719	11,026	11,026	183,771
Food and supplies	125,701	-	-	125,701
Staff recruiting and training costs	42,002	2,864	2,864	47,730
Direct mailings and newsletter	-	-	162,003	162,003
Office supplies and postage	49,060	9,505	38,662	97,227
Medical and dental care	32,779	-	-	32,779
Ranch operations	16,182	-	-	16,182
Professional fees	8,816	31,401	601	40,818
	<u>\$ 5,249,211</u>	<u>\$ 355,819</u>	<u>\$ 534,631</u>	6,139,661
Total Expenses				6,139,661
Direct donor benefit costs				<u>589,569</u>
Total				<u>\$ 6,729,230</u>

See accompanying notes.

**BOYS AND GIRLS COUNTRY OF HOUSTON, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total</b>
Salaries and employee benefits	\$ 3,255,431	\$ 202,627	\$ 193,913	\$ 3,651,971
Depreciation	677,975	45,706	38,089	761,770
Utilities and telephone	308,204	20,778	17,315	346,297
Maintenance and operation of properties and vehicles	293,469	13,820	11,516	318,805
Activities and education support	307,474	867	723	310,092
Insurance	164,035	11,058	9,215	184,308
Food and supplies	115,484	-	-	112,468
Staff recruiting and training costs	65,364	4,407	3,672	73,443
Direct mailings and newsletter	-	5,089	99,687	99,687
Office supplies and postage	51,989	3,496	20,754	83,316
Medical and dental care	56,727	-	-	56,727
Ranch operations	17,843	-	-	17,843
Professional fees	9,184	31,419	516	41,119
<b>Total Expenses</b>	<b><u>\$ 5,323,179</u></b>	<b><u>\$ 339,267</u></b>	<b><u>\$ 395,400</u></b>	<b>6,057,846</b>
Direct donor benefit costs				<u>351,722</u>
<b>Total</b>				<b><u>\$ 6,409,568</u></b>

See accompanying notes.



**BOYS AND GIRLS COUNTRY OF HOUSTON, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 1,639,530	\$ 140,486
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	881,822	761,770
Contributions restricted for acquisition of property and equipment	(135,480)	(707,615)
Loss on retirement of property and equipment	17,403	12,000
Donated property and equipment	(30,910)	(56,585)
Donated securities	(79,360)	(117,196)
Realized and unrealized loss on investments	193	52,022
Deferred compensation	25,352	(11,652)
Change in interest in net assets of Endowment Fund	(1,154,130)	(573,320)
Change in operating assets and liabilities:		
Pledges receivable, net	(802,959)	335,816
Other receivables	169,747	(343,339)
Prepaid expenses and other assets	114,881	(128,161)
Accounts payable and accrued liabilities	182,050	49,488
Accrued salaries and benefits	(21,994)	13,286
Funds held for residents	(45,624)	(104)
 Total adjustments	 <u>(879,009)</u>	 <u>(713,590)</u>
 Net cash provided (used) by operating activities	 <u>760,521</u>	 <u>(573,104)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(3,419,050)	(2,640,706)
Proceeds from sales of investments	3,404,635	3,612,716
Net change in money market mutual fund investments	149,271	(151,091)
Purchase of property and equipment	(565,253)	(1,496,793)
Contribution to Endowment Fund	(1,000,000)	-
 Net cash used by investing activities	 <u>(1,430,397)</u>	 <u>(675,874)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted to acquisition of property and equipment	<u>793,393</u>	<u>1,459,613</u>
 Net cash provided by financing activities	 <u>793,393</u>	 <u>1,459,613</u>
 NET CHANGE IN CASH	 123,517	 210,635
 CASH AT BEGINNING OF YEAR	 <u>564,647</u>	 <u>354,012</u>
 CASH AT END OF YEAR	 <u>\$ 688,164</u>	 <u>\$ 564,647</u>
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cost of property and equipment retired	<u>\$ 136,299</u>	<u>\$ 185,429</u>

See accompanying notes.

**BOYS AND GIRLS COUNTRY OF HOUSTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

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NOTE A                   BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Boys and Girls Country of Houston, Inc. (Boys and Girls Country), a Texas not-for-profit organization, is a licensed childcare residential facility that provides 24-hour care for children in crisis between the ages of 5 and 18, primarily from the Greater Houston area. Boys and Girls Country also provides a residential care and scholarship program for residents aged 18 or older.

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

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

Concentrations of Credit and Market Risk - Financial instruments that subject Boys and Girls Country to concentrations of credit risk consist principally of cash and investments. Boys and Girls Country places its cash with high credit quality financial institutions. At times, such amounts may exceed insured limits; however, these amounts typically may be redeemed upon demand and, therefore, bear minimal risk. In monitoring this credit risk, Boys and Girls Country periodically evaluates the stability of these financial institutions.

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

Investments - Investments are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income or loss is included in other income in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

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

Receivables - Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted, if material, to estimate the present value of future cash flows. Generally, no collateral or other security is required to support other receivables. An allowance for doubtful accounts is established and accounts written off as needed based upon factors surrounding the credit risk of specific donors or creditors. At December 31, 2012, contributions from one donor represented 65% of pledges receivable and 15% of total contributions and special events revenues. There were no similar concentrations in 2011.

Property and Equipment - Property and equipment is recorded at cost if purchased or at fair value at the date of gift if donated. Depreciation is calculated using the straight-line method over estimated useful lives of 5 to 30 years for buildings and improvements and 3 to 8 years for furniture and equipment and transportation equipment.

The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and any gain or loss is included in the statements of activities. Expenditures for maintenance and repairs are charged to earnings as incurred.

Interest in Net Assets of the Endowment Fund - Interest in net assets of the Endowment Fund is recorded at the fair value of the underlying assets of the Endowment Fund as reported in the audited financial statements of the Endowment Fund. As further discussed in Note G, the change in the value of the Endowment Fund from year to year is recorded as an increase or decrease in temporarily or permanently restricted net assets in the statements of activities.

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

- Unrestricted net assets include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- Temporarily restricted net assets include contributions restricted by the donor for specific purposes or time periods. When the purpose is accomplished or the time restriction is met, temporarily restricted net assets are released to unrestricted net assets. Temporarily restricted net assets also include Boys and Girls Country's interest in the net assets of the Endowment Fund excluding the funds that are permanently restricted and the unrestricted funds that were transferred by Boys and Girls Country to the Endowment Fund.
- Permanently restricted net assets represent the interest in the permanently restricted net assets of the Endowment Fund. The Endowment Fund's permanently restricted net assets are contributions that donors have restricted in perpetuity. The related investment income is available to the Endowment Fund to distribute to Boys and Girls Country to support various activities.

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

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

In kind Contributions - Donated assets, materials and use of facilities are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recorded as the item is used. Contributions of services which would typically need to be purchased, if not provided by donation, are recognized either when services received create or enhance nonfinancial assets or are provided by individuals possessing specialized skills. In 2012, \$37,248 of donated property and equipment, \$114,461 of donated goods, and \$10,606 of other donated items were recorded as in-kind contributions, assets and program expenses. In 2011, \$56,585 of donated property and equipment, \$107,501 of donated goods, and \$140,318 of other donated items were recorded as in-kind contributions, assets and program expenses.

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

Functional Expenses - Functional expenses which are not specifically related to a program are charged to programs based on management's estimates.

Income Taxes - Boys and Girls Country is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, Boys and Girls Country is subject to taxes on unrelated business income. No unrelated business income was generated in 2012 and 2011.

Boys and Girls Country believes that all significant tax positions utilized by Boys and Girls Country will more likely than not be sustained upon examination. As of December 31, 2012, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2009 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as management and general expense in the statement of activities.

Subsequent Events - Management has evaluated subsequent events through September 9, 2013, the date the financial statements were available to be issued. No subsequent events occurred which require adjustment to or disclosure in the financial statements at December 31, 2012.

**BOYS AND GIRLS COUNTRY OF HOUSTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

NOTE B PLEDGES RECEIVABLE

Pledges receivable at December 31, 2012 and 2011 are receivable as follows:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 674,824	\$ 1,127,788
Receivable in one to five years	<u>606,000</u>	<u>30,000</u>
	1,280,824	1,157,788
Allowance for doubtful accounts	<u>(48,787)</u>	<u>(70,797)</u>
	<u>\$ 1,232,037</u>	<u>\$ 1,086,991</u>

NOTE C PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2012</u>	<u>2011</u>
Land and Improvements	\$ 4,375,857	\$ 4,111,683
Buildings and Improvements	11,448,247	11,270,933
Furniture and Equipment	1,210,642	1,158,295
Transportation Equipment	670,007	579,477
Livestock	52,550	57,900
Construction In Progress	<u>-</u>	<u>119,150</u>
	17,757,303	17,297,438
Less accumulated depreciation	<u>(8,878,203)</u>	<u>(8,115,276)</u>
	<u>\$ 8,879,100</u>	<u>\$ 9,182,162</u>

NOTE D INVESTMENT RETURN

Investment return, which is a component of other income, is summarized as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 21,841	\$ 4,425
Net realized and unrealized loss on investments	<u>(30,586)</u>	<u>(52,022)</u>
Total investment loss	<u>\$ (8,745)</u>	<u>\$ (47,597)</u>

Realized and unrealized loss on investments per the statements of cash flows included gains allocated to deferred compensation. (See Note F)

NOTE E      FAIR VALUE DISCLOSURES

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

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

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

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

Following is a description of the valuation techniques used for assets measured at fair value. There have been no changes in the techniques used during 2012 and 2011.

Interest in net assets of the Endowment Fund is reported at the fair value of the net assets of the Endowment Fund as of December 31, 2012 and 2011, respectively, which is based upon the fair value of the underlying assets which consist primarily of actively traded equity securities and corporate bonds. Level 1 and 2 fair value inputs were used to determine the fair value of the underlying assets.

Certificates of deposit and U.S. Government securities generally mature within 1 year from financial statement date and are valued based on prices obtained from independent quotation bureaus that use computerized valuation formulas to calculate current values.

Mutual funds are valued at reported net asset value of shares held at year end.

Partnership interests are valued based on the equity interest reported by the partnership, which management believes approximates fair value.

**BOYS AND GIRLS COUNTRY OF HOUSTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

NOTE E FAIR VALUE DISCLOSURES (CONTINUED)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Boys and Girls Country believes its valuation techniques are appropriate and consistent with other market participants, the use of different techniques or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair values of investments are categorized as follows at December 31, 2012 and 2011:

	2012			Total
	Level 1	Level 2	Level 3	
Interest in net assets of the				
Endowment Fund	\$ -	\$ 13,699,592	\$ -	\$ 13,699,592
Certificates of deposit	-	942,512	-	942,512
Money market mutual funds	105,816	-	-	105,816
Equity mutual funds	182,913	-	-	182,913
Corporate Notes	-	86,879	-	86,879
Equities	43,921	-	-	43,921
Partnership interests	-	-	56,434	56,434
	<u>\$ 332,650</u>	<u>\$ 14,728,983</u>	<u>\$ 56,434</u>	<u>\$ 15,118,067</u>
	2011			Total
	Level 1	Level 2	Level 3	Total
Interest in net assets of the				
Endowment Fund	\$ -	\$ 11,545,462	\$ -	\$ 11,545,462
Certificates of deposit	-	801,054	-	801,054
Money market mutual funds	255,087	-	-	255,087
Equity mutual funds	158,270	-	-	158,270
Corporate Notes	-	143,771	-	143,771
Equities	53,178	-	-	53,178
Partnership interests	-	-	62,804	62,804
	<u>\$ 466,535</u>	<u>\$ 12,490,287</u>	<u>\$ 62,804</u>	<u>\$ 13,019,626</u>

During 2012, management determined the measurement techniques used to value corporate notes more appropriately met the criteria of Level 2 inputs in both 2012 and 2011. Thus, they were transferred out of Level 1 and the 2011 table was restated. The changes in the Level 3 partnership interests during 2012 and 2011 result from the allocation of partnership profit or loss.

NOTE F            RETIREMENT PLAN

Boys and Girls Country contributes an amount equal to 3% of each employee's annual salary to a defined-contribution retirement plan for employees who have met the eligibility requirement of one year of service. Boys and Girls Country contributed \$66,874 and \$64,095 to the plan in 2012 and 2011, respectively.

Effective January 1, 2001, Boys and Girls Country's compensation committee established the Key Employee Security Option Plan (the Plan) to provide a vehicle for the payment of compensation to participating key executives. The Plan is intended to be a nonqualified stock option plan within the meaning of §83 of the Internal Revenue Code. In 2002, Boys and Girls Country entered into an option agreement with an employee and purchased certain securities with an initial value of \$80,000 to fund the agreement. Under the terms of the agreement, all options became fully vested and exercisable as of January 1, 2004 and will expire on December 31, 2015. The employee may exercise the options at a price of 25% of the initial value. A deferred compensation obligation has been accrued based on the value of the securities held net of the exercise price of the vested option. At December 31, 2012 and 2011, the related securities have a market value of approximately \$183,000 and \$158,000, respectively, and are included with investments in the accompanying statement of financial position. In 2012, the employee exercised a portion of the option and received a distribution of \$5,041.

NOTE G            THE ENDOWMENT FUND

In prior years, Boys and Girls Country had transferred a total of \$2,594,360 unrestricted, excess funds to the Endowment Fund to invest. No unrestricted transfers were made during 2012 or 2011. These unrestricted funds are invested with the other Endowment Fund assets but may be utilized by Boys and Girls Country if required to fund its activities. In addition, Boys and Girls Country may request grants from the temporarily-restricted assets of the Endowment Fund to support the specific activities for which they were intended. In 2012 and 2011, grants were requested and approved for \$170,000 and \$260,000, respectively, and are included in other receivables in the financial statements.

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

In December 2012, Boys and Girls Country made a grant of \$1,000,000 to the Endowment from the funds raised in Capital Campaign III. The purpose of the grant was to establish a fund, the income from which would be used to fund future grants to Boys and Girls Country to pay for the operating expenses of the facilities constructed using the funds raised by the Campaign. This amount is included in permanently restricted net assets.

In September 2011, Boys and Girls Country entered into a Service Agreement with the Endowment whereby Boys and Girls Country provides fund raising and other services to the Endowment. The Endowment reimburses Boys and Girls Country for payroll and other costs associated with these fund raising activities. For the years 2012 and 2011, \$119,958 and \$31,761, respectively, were charged to Endowment under this arrangement and are included as a reduction of salaries and other expenses. At December 31, 2012 and 2011, \$12,309 and \$14,548, respectively, of unreimbursed salaries and other expenses are included in other receivables.



**BOYS AND GIRLS COUNTRY OF HOUSTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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NOTE H UNRESTRICTED NET ASSETS

Unrestricted net assets are as follows at December 31:

	2012	2011
Interest in net assets of the Endowment Fund	\$ 2,594,360	\$ 2,594,360
Invested in property and equipment	8,879,100	9,182,162
Undesignated	1,001,936	873,954
	\$ 12,475,396	\$ 12,650,476

NOTE I TEMPORARILY RESTRICTED NET ASSETS

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

	2012	2011
Interest in net assets of the Endowment Fund:		
General support	\$ 5,322,156	\$ 4,590,903
Scholarships and student loans	257,101	194,010
Children's Table Fund	151,208	170,637
Teaching parent support	3,535	6,485
	5,734,000	4,962,035
Capital campaign for the acquisition of property	897,292	2,164,538
Use in future periods	875,688	42,860
Other	322,370	227,473
	\$ 7,829,350	\$ 7,396,906

NOTE J PERMANENTLY RESTRICTED NET ASSETS

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

	2012	2011
General support of Boys and Girls Country	\$ 3,024,362	\$ 3,000,482
Facilities Maintenance Fund	1,000,000	-
Scholarships and student loans	837,289	554,369
Children's Table Fund	372,560	298,224
Teaching parent support	125,000	125,000
Other	12,022	10,992
	\$ 5,371,233	\$ 3,989,067

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NOTE K REIMBURSEMENT FOR CARE

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

	<u>2012</u>	<u>2011</u>
Texas Department of Family and Protective Services	\$ 137,403	\$ 134,666
Texas Department of Agriculture (National School Lunch Program)	76,716	88,602
Family Payments	<u>45,011</u>	<u>47,609</u>
	<u>\$ 259,130</u>	<u>\$ 270,877</u>