

Boys & Girls Clubs
of Southeastern
Michigan



Year Ended
December 31,
2023

Financial
Statements

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

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INDEPENDENT AUDITORS' REPORT

June 20, 2024

Board of Directors
Boys & Girls Clubs of
Southeastern Michigan
Farmington Hills, Michigan

Opinion

We have audited the accompanying financial statements of **Boys & Girls Clubs of Southeastern Michigan** (the "BGCSM") (a Michigan not-for-profit organization), which comprise the statement of financial position as of December 31, 2023, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements (the "financial statements").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Boys & Girls Clubs of Southeastern Michigan** as of December 31, 2023 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Independent Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the BGCSM 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, effective January 1, 2023, BGCSM adopted Accounting Standards Codification Topic 326, *Financial Instruments - Credit Losses*. Our opinion is not modified with respect to this matter.



Restatement

As described in Note 14 to the financial statements, the net assets as of January 1, 2023 have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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 the BGCSM's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Independent 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 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, 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 the BGCSM'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 the BGCSM'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.

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

Statement of Financial Position

December 31, 2023

ASSETS

Current assets

Cash and cash equivalents	\$ 7,682,224
Contributions receivable	3,142,359
Prepaid expenses and other assets	<u>251,788</u>

Total current assets **11,076,371**

Contributions receivable, net of current portion	858,435
Investments	1,528,314
Net property and equipment	6,053,991
Net operating lease right-of-use assets	<u>4,308</u>

Total assets **\$ 19,521,419**

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable and accrued expenses	\$ 950,167
Accrued pension	71,931
Refundable advance on conditional contributions	16,500
Current portion of long-term debt	47,035
Current portion of operating lease obligations	<u>2,756</u>

Total current liabilities **1,088,389**

Long-term debt, net of current portion	197,147
Operating lease obligations, net of current portion	<u>1,261</u>

Total liabilities **1,286,797**

Net assets

Without donor restrictions	4,945,260
With donor restrictions	<u>13,289,362</u>

Total net assets **18,234,622**

Total liabilities and net assets **\$ 19,521,419**

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

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

Statement of Activities

Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Totals
Revenues, support, and gains			
Direct contributions:			
Individuals	\$ 138,648	\$ -	\$ 138,648
Corporations	1,359,903	162,500	1,522,403
Foundations	2,670,641	1,210,000	3,880,641
Other contributions	6,096		6,096
Indirect contributions:			
United Way affiliates	41,063	-	41,063
Contributed nonfinancial assets	416,455	-	416,455
Government grants:			
Passed through Boys & Girls Clubs of America	948,041	-	948,041
Federal, state and local	1,197,500	8,887,500	10,085,000
Boys & Girls Clubs of America Grant	321,621	-	321,621
Special events, net of direct expenses of \$506,745	324,279	-	324,279
Net investment returns	94,243	252,590	346,833
Membership dues	63,698	-	63,698
Program revenue	144,455	-	144,455
Gain on sale of property and equipment	1,059,497	-	1,059,497
Other revenue	9,000	-	9,000
Net assets released from restrictions	3,274,329	(3,274,329)	-
Total revenues, support, and gains	12,069,469	7,238,261	19,307,730
Expenses			
Program services	7,999,157	-	7,999,157
Supporting services:			
Management and general	1,480,169	-	1,480,169
Fundraising	1,468,669	-	1,468,669
Total expenses	10,947,995	-	10,947,995
Changes in net assets	1,121,474	7,238,261	8,359,735
Net assets, beginning of year, as restated (Note 14)	3,823,786	6,051,101	9,874,887
Net assets, end of year	\$ 4,945,260	\$ 13,289,362	\$ 18,234,622

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

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

Statement of Functional Expenses

Year Ended December 31, 2023

	Supporting Services				Total Expenses
	Program Services	Management and General	Fundraising	Total Supporting Services	
Personnel expenses					
Salaries and wages	\$ 2,955,382	\$ 506,637	\$ 759,955	\$ 1,266,592	\$ 4,221,974
Employee benefits and payroll taxes	587,618	82,740	123,735	206,475	794,093
Total personnel expenses	3,543,000	589,377	883,690	1,473,067	5,016,067
Other expenses:					
Professional fees	1,013,210	342,747	553,642	896,389	1,909,599
Supplies and postage	981,408	8,608	23,046	31,654	1,013,062
Special events venue and food	-	-	187,944	187,944	187,944
Utilities	249,734	7,749	5,464	13,213	262,947
Building equipment and maintenance	554,205	102,205	10,981	113,186	667,391
Insurance	122,299	17,896	11,526	29,422	151,721
Marketing and communications	11,508	4,491	195,017	199,508	211,016
Printing and subscriptions	2,909	3,190	673	3,863	6,772
Awards and scholarships	13,329	8,183	-	8,183	21,512
Transportation and conferences	52,746	4,017	2,891	6,908	59,654
Interest	-	20,774	427	21,201	21,201
Bank charges and fees	5,198	917	-	917	6,115
Miscellaneous	60,180	139,575	63,288	202,863	263,043
Bad debt, contributions receivable	315,000	-	-	-	315,000
Other	467,335	1,194	1,948	3,142	470,477
Donated services, materials and use of facilities	322,232	59,346	34,877	94,223	416,455
Total expenses before depreciation	7,714,293	1,310,269	1,975,414	3,285,683	10,999,976
Depreciation	284,864	169,900	-	-	454,764
Total expenses	\$ 7,999,157	\$ 1,480,169	\$ 1,975,414	\$ 3,285,683	\$ 11,454,740
Less special event expenses included with revenue, support and gains on the statement of activities	-	-	(506,745)	(506,745)	(506,745)
Total expenses included in the expenses section of the statement of activities	\$ 7,999,157	\$ 1,480,169	\$ 1,468,669	\$ 2,778,938	\$ 10,947,995

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

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

Statement of Cash Flows

December 31, 2023

Cash flows from operating activities	
Cash received from donors and grantors	\$ 15,997,433
Interest income and dividends received	316,359
Cash received from other sources	217,153
Cash paid to employees	(5,103,161)
Cash paid to suppliers and vendors	(4,448,380)
Interest paid	<u>(21,201)</u>
Net cash provided by operating activities	<u>6,958,203</u>
Cash flows from investing activities	
Purchases and construction of property and equipment	(1,008,528)
Proceeds from sale of property and equipment	1,338,026
Proceeds from sale of investments	886,974
Purchases of investments	<u>(1,032,955)</u>
Net cash provided by investing activities	<u>183,517</u>
Cash flows from financing activities	
Repayments of long-term debt	(19,818)
Proceeds from issuance of long-term debt	<u>264,000</u>
Net cash provided by financing activities	<u>244,182</u>
Net increase in cash and cash equivalents	7,385,902
Cash and cash equivalents, beginning of year	<u>296,322</u>
Cash and cash equivalents, end of year	<u>\$ 7,682,224</u>

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

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

Notes to Financial Statements

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Boys & Girls Clubs of Southeastern Michigan ("BGCSM") is a not-for-profit BGCSM serving youth and their families in Wayne, Oakland, Macomb, and Washtenaw Counties. BGCSM's mission is to enable youth to become ready for careers, start-ups, and homeownership by receiving, in a safe and positive environment, the economic, social, human, and cultural capital needed to become economically mobile. BGCSM's multi-generational approach provides youth with an ecosystem of support needed to successfully transition into adulthood and a productive post-secondary future, whether that means college, entrepreneurship, skilled trades, or a direct career path into a growth industry. By promoting economic mobility among the region's youth, BGCSM is making strides at reversing years of poverty in southeastern Michigan. BGCSM receives contributions from individuals, corporations, BGSCM's, governments (federal, state, and local), community groups (fraternal, civic, and social), and special events. BGCSM often collaborates with its community partners and funders in pursuit of its mission.

Basis of Presentation

Net assets, revenues, support, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- **Net Assets With Donor Restrictions** - Net assets subject to donor - (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. See Note 11.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the year. Actual results could differ from those estimates.

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

Notes to Financial Statements

Cash and Cash Equivalents

Cash and cash equivalents consist of a money market account held in a bank and cash on hand. The BGCSM considers all highly liquid investments with original maturities when purchased of less than three months to be cash equivalents. The BGCSM maintains money market and cash accounts in financial institutions in amounts, which at times, may exceed federally insured limits. Management believes that the BGCSM is not exposed to any significant interest rate or other risks on these deposits. The BGCSM has not experienced any credit losses and does not believe it is exposed to any significant credit loss on money market accounts.

Investments

Investments are stated at fair value based upon quoted market prices. Investment transactions are accounted for on the trade date (date the order to buy or sell is executed). Gifts of securities are recorded at their fair value based on the quoted price of stock transactions at the date of the gift. Unrealized gains and losses are included in the change in net assets. Realized gains or losses on investments sold are determined using the specific identification method. Income from investments, including realized and unrealized gains and losses less external investment expenses is allocated among net assets with donor restrictions and without donor restrictions based on donor restrictions or the absence thereof.

The BGCSM invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, 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 statements of financial position and activities.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3).

A description of each category in the fair value hierarchy is as follows:

- Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

Notes to Financial Statements

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For further discussion of fair value measurements, refer to Note 4.

Contributions Receivable and Concentration

BGCSM carries its contributions receivable at the amount management expects to collect from outstanding balances. The BGCSM provides for probable uncollectible amounts based on management's review of the current status of contributions receivable. It is reasonably possible that the BGCSM's estimate of the allowance for uncollectible contributions will change. Amounts deemed uncollectible are charged against the allowance for contributions in the period that such determination is made. Management has concluded that an allowance for uncollectible contributions related to balances outstanding at December 31, 2023 is immaterial. See Note 3. Two donors accounted for approximately 61% of contributions in 2023. Two donors accounted for approximately 70% of contribution receivables in 2023.

Prepaid Expenses and Other Assets

Payments to vendors for services that will benefit periods beyond BGCSM's year end are recorded as prepaid expenses.

Property and Equipment and Depreciation

Property and equipment are stated at their original cost if purchased or at their estimated fair value at the date of gift if donated. BGCSM capitalizes all expenditures for property and equipment in excess of \$3,000; similar assets of \$1,500 or more that are acquired in a single purchase or donation are capitalized in aggregate if the total cost (or estimated fair value, if donated) is over \$15,000. Maintenance and repairs are charged to expenses.

Depreciation is computed using the straight-line basis over the estimated useful lives of the assets, which range from 5 to 50 years.

Leases

The BGCSM determines whether an arrangement contains a lease at the arrangement's inception. If a lease is determined to exist, its related term is assessed at lease commencement, once the underlying asset is made available by the lessor for the BGCSM's use. The BGCSM's assessment of the lease term reflects the non-cancellable period of the lease, inclusive of any rent-free periods and/or periods covered by early-termination options for which the BGCSM is not considered reasonably certain of exercising, as well as periods covered by renewal options for which it is considered reasonably certain of exercising. The BGCSM also determines lease classification as either operating or finance at lease commencement, which governs the pattern of expense recognition and the presentation thereof reflected in the statement of activities over the lease term.

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

Notes to Financial Statements

For leases with a lease term exceeding 12 months, a lease liability is recorded on BGCSM's statement of financial position at lease commencement reflecting the present value of its fixed payment obligations over such term. A corresponding ROU asset equal to the initial lease liability is also recorded, increased by any prepaid rent and/or initial direct costs incurred in connection with execution of the lease, and reduced by any lease incentives received. The BGCSM includes fixed payment obligations related to non-lease components in the measurement of ROU assets and lease liabilities, as it elects to account for lease and non-lease components together as a single lease component. Variable lease payments are not included in the measurement of ROU assets and lease liabilities. ROU assets associated with finance leases are presented separate from those associated with operating leases, and are included within property and equipment, net on the BGCSM's statement of financial position. For purposes of measuring the present value of its fixed payment obligations for a given lease, the BGCSM uses the risk-free discount rate, determined based on information available at lease commencement, as rates implicit in its leasing arrangements are not readily determinable.

For operating leases, fixed lease payments are recognized as operating lease cost on a straight-line basis over the lease term. For finance leases, the initial ROU asset is depreciated on a straight-line basis over the lease term, along with recognition of interest expense associated with accretion of the lease liability, which is ultimately reduced by the related fixed payments as they are made. For leases with a lease term of 12 months or less (referred to as a "short-term lease"), any fixed lease payments are recognized on a straight-line basis over such term and are not recognized on the statement of financial position. Variable lease cost, if any, is recognized as incurred for all leases.

Management reviews these ROU assets for impairment whenever events or circumstances indicate that their carrying values may not be fully recoverable.

Contributed Nonfinancial Assets

BGCSM receives contributed nonfinancial assets to help fund its operations and special events. These donations can include use of facilities, advertising, promotional services, salaries and benefits, materials, and other items. Donations of services are recognized in the financial statements if the services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The estimated fair value of these services, materials, and facilities is reflected in the accompanying financial statements. See Note 9.

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

Notes to Financial Statements

Revenue and Support Recognition

The BGCSM records as revenue the following types of contributions when they are received unconditionally, at their fair value: cash, promises to give, certain donated services and gifts of long-lived and other assets. Contributions without a donor restriction are reported as increases in net assets without donor restrictions, and donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. When donor restrictions expire in the same reporting period as the contributions are received, the contributions are reported as without donor restrictions. Conditional contributions, those with a measurable performance or other barrier and a right of return, are not recognized as support until the conditions on which they depend have been met. The BGCSM's grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. As of December 31, 2023, there was \$75,000 conditional contributions that have not yet been recognized as support because conditions have not yet been met. Refundable advances related to these conditional contributions totaled \$16,500 at December 31, 2023.

The BGCSM holds special events and reports the support generated, net of any direct operating costs, as support in the accompanying statement of activities. Event support is recognized at fair value on the earlier of the receipt of cash or an unconditional promise to give. The exchange portion of the transactions for the direct cost of donor benefits was not significant.

Program revenues and membership fees, which are not significant to the financial statements, are recorded as revenue upon satisfaction of the related performance obligation.

Income Taxes

The BGCSM is a not-for-profit BGCSM exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is exempt from similar state and local taxes. Although the BGCSM was granted an income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income." The BGCSM has not been classified as a private foundation.

The BGCSM analyzes its income tax filing positions in the federal and state jurisdictions where it is required to file income tax returns, for all open tax years in these jurisdictions, to identify potential uncertain tax positions.

The BGCSM has evaluated fiscal 2020 through 2023, the years which remain subject to examination by major tax jurisdictions as of December 31, 2023, for uncertain tax positions. The BGCSM concluded that there are no significant uncertain tax positions requiring recognition in the BGCSM's financial statements. The BGCSM does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next twelve months. The BGCSM does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2023, and it is not aware of any claims for such amounts by federal or state income tax authorities.

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

Notes to Financial Statements

Functional Allocation of Expenses

The cost of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. The BGCSM allocates certain operating expenses on a functional basis among its program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Natural expenses attributable to more than one functional expense category are allocated using a reasonable cost allocation method. Salary and benefits are allocated to program and supporting services based on estimated time and effort. Other expenses are allocated based on estimates of usage. Although the methods of allocation used are considered reasonable, there are other methods that could be used and produce different amounts.

Change in Accounting Principle

The Financial Accounting Standards Board issued Accounting Standards Update 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, in June 2016. The standard replaced the incurred loss impairment methodology with a new methodology that reflects current expected credit losses ("CECL") on financial assets, including receivables and certain off-balance sheet commitments. The new methodology requires the measurement of all expected credit losses based on historical experience, current economic conditions, and reasonable and supportable forecasts. The standard also expands the required quantitative and qualitative disclosures for expected credit losses. On January 1, 2023, BGCSM adopted the standard using a modified retrospective method. The adoption of this standard did not have a material impact on the financial statements and disclosures.

Subsequent Events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2023, the most recent statement of financial position presented herein, through June 20, 2024, the date these financial statements were available to be issued. No significant such events or transactions were identified other than those disclosed in Notes 5 and 6.

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

Notes to Financial Statements

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at December 31, 2023:

Cash and cash equivalents	\$ 7,682,224
Contributions receivable	4,000,794
Investments	<u>1,528,314</u>
Subtotal	13,211,332
Less amounts unavailable for general expenditures within one year due to:	
Net assets with donor restrictions	<u>(13,289,362)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ (78,030)</u>

BGCSM has certain donor-restricted assets that are to be used for specific purposes or maintained donor-restricted in perpetuity. BGCSM has a policy to manage its liquidity following three guiding principles: operating within a prudent range of financial stability, maintaining adequate liquidity to fund near-term operations, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The line of credit described in Note 6 is also available for general expenditures, without donor or other restrictions limiting its use, within one year of the statement of financial position date.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following unconditional promises to give as of December 31, 2023:

Amounts due in:	
Less than one year	\$ 3,142,359
One to five years	<u>950,000</u>
	4,092,359
Less	
Unamortized discount at 4.79%	<u>(91,565)</u>
	<u>\$ 4,000,794</u>

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

Notes to Financial Statements

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The BGCSM utilizes fair value measurements to record fair value adjustments to investments and to determine fair value disclosures. Investments are recorded at fair value on a recurring basis.

Following is a description of the valuation methodologies used for investments recorded at fair value on a recurring basis. The description includes an indication of the level of the fair value hierarchy in which the assets are classified. There have been no changes in the methodologies used at December 31, 2023.

Common stocks, mutual funds, U.S. Treasury Bills, and exchange traded funds: Level 1 fair value measurement is based upon the closing price reported on the active market in which the individual securities are traded.

Corporate bonds: Corporate bonds are valued at the closing price reported in the active market in which the security is traded and are classified as Level 1.

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

Assets Recorded at Fair Value on a Recurring Basis

The following tables set forth by level, within the fair value hierarchy, the BGCSM's investments measured at fair value on a recurring basis:

December 31, 2023	Level 1	Level 2	Level 3	Total
Common stock	\$ 691,611	\$ -	\$ -	\$ 691,611
Corporate bonds	60,213	-	-	60,213
Mutual funds	91,530	-	-	91,530
U.S. Treasury Bills	170,890	-	-	170,890
Exchange traded funds	514,070	-	-	514,070
Total investments at fair value	\$ 1,528,314	\$ -	\$ -	\$ 1,528,314

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

Notes to Financial Statements

5. NET PROPERTY AND EQUIPMENT (INCLUDING SUBSEQUENT EVENT)

Net property and equipment consists of the following amounts at December 31, 2023:

Land and land improvements	\$ 434,443
Buildings and building improvements	10,235,864
Equipment and software	1,555,022
Vehicles	278,896
Leasehold improvements	14,400
Construction in progress	<u>87,955</u>
Total	12,606,580
Less accumulated depreciation	<u>6,552,589</u>
Net property and equipment	<u>\$ 6,053,991</u>

Construction in progress at December 31, 2023 relates to the renovation of the Highland Park location and interior renovations to the Diehl Club. Estimated costs to complete these projects is \$2,031,200.

Depreciation expense for the year ended December 31, 2023 was \$454,764.

Subsequent to year end, BGCSM purchased five transportation vehicles that was funded by donors for approximately \$500,000.

6. SHORT-TERM BANK BORROWINGS (INCLUDING SUBSEQUENT EVENT)

BGCSM has a line of credit available to support working capital purposes with maximum borrowings of \$750,000. The line bears interest at 0.25 percent over the prime rate, but not less than three percent per annum (effective rate of 8.75% at December 31, 2023). This line of credit is secured by the assets of BGCSM. There were no borrowings outstanding at December 31, 2023. In May 2024, BGCSM renewed its line of credit with a maximum borrowings of \$1,250,000 and interest charged the prime rate, but not less than three percent per annum. The line of credit has no maturity date and is reviewed annually for renewal by the lender.

BOYS & GIRLS CLUBS OF SOUTHEASTERN MICHIGAN

Notes to Financial Statements

7. LONG-TERM DEBT

Long-term debt consists of a note payable used to finance the purchase of three vehicles. The note payable is due in monthly installments of \$5,354, including interest charged at a fixed rate of 3.023% through June 2028. The note is collateralized by the vehicles purchased.

Scheduled annual principal maturities of long-term debt for each of the five years succeeding December 31, 2023 are summarized as follows:

Year	Principal
2024	\$ 47,035
2025	50,893
2026	55,068
2027	59,585
2028	<u>31,601</u>
	<u><u>\$ 244,182</u></u>

8. LEASES

BGCSM leases equipment under operating lease agreements expiring at various times through April 2026.

The following table summarizes the composition of net lease cost, which is included in building and equipment maintenance on the statement of functional expenses, during the year ended December 31, 2023:

Operating lease cost	<u><u>\$ 11,430</u></u>
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The following table summarizes other information related to the BGCSM's leases during the year ended December 31, 2023:

Cash paid for amounts included in the measurement of lease obligations	
Operating cash flows from operating leases	\$ 11,263
Weighted-average remaining lease term - operating leases (in years)	1.82
Weighted-average discount rate - operating leases	7.71%

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The following table presents a maturity analysis summary of the BGCSM's operating lease obligations recorded on the statement of financial position as of December 31, 2023:

Year	Non-Cancellable Operating Leases
2024	\$ 2,192
2025	1,678
2026	<u>505</u>
Total lease payments	4,375
Less present value discount	<u>358</u>
Total lease obligations	4,017
Less current portion	<u>1,261</u>
Long-term lease obligations	<u><u>\$ 2,756</u></u>

The BGCSM does not have any significant financing leases that require recognition on the statement of financial position. In addition, the BGCSM does not have any significant variable lease costs or sublease income requiring disclosure in the financial statements.

9. CONTRIBUTED NONFINANCIAL ASSETS

Contributed nonfinancial assets including the usage of those assets, are summarized as follows for the year ended December 31, 2023:

	Usage
Professional services	\$ 25,398 Supporting services
Professional services	85,028 Program
Materials	23,975 Supporting services
Materials	80,263 Program
Facilities	16,391 Supporting services
Facilities	61,661 Program
Equipment	28,459 Supporting services
Equipment	<u>95,280</u> Program
	<u><u>\$ 416,455</u></u>

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Contributed nonfinancial assets were valued using estimated average prices of identical or similar products or services using pricing data of similar products or services under a “like-kind” methodology, considering the utility of the services and goods at the time of the contribution. No contributed nonfinancial assets were received with donor restrictions. BGCSM does not sell donated gifts and only uses donated services and goods for its own program or supporting service activities.

10. PENSION PLAN

BGCSM sponsors a deferred compensation plan qualified under Section 401(k) of the Internal Revenue Code ("Code"). Under this plan, eligible employees are permitted to contribute into the retirement plan up to a maximum specified by the Code. After 1 year of employment and 1,000 hours worked, employees are eligible to receive 5% of their annual salary paid in the form of an annual contribution to their 401k. The 5% includes a 3% Safe Harbor contribution and 2% Profit Sharing. Employees receive this contribution regardless of their participation in the plan. Also, after 1 year of employment and 1,000 hours worked, employees are eligible to contribute to their 401(k) on a pre-tax basis. Employees are also eligible to contribute to the Roth IRA. Pension expense was \$69,911 for the year ended December 31, 2023. The accrued pension balance was \$71,931 as of December 31, 2023.

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions, subject to expenditure for specified purposes, are available for the following at December 31, 2023:

Subject to expenditure for specified purpose:	
Economic Mobility Youth Programming	\$ 8,269,783
Sports and eSports	1,463,497
Industry clubs	660,355
Mental health programming	625,000
Youth development and general programming	142,500
Scholarships	123,040
Dick & Sandy Dauch Campus	<u>100,000</u>
	11,384,175
Endowments:	
Subject to endowment spending policy and appropriation	
Operations	<u>1,905,187</u>
Total net assets with donor restrictions	<u><u>\$ 13,289,362</u></u>

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Net assets released from restrictions consisted of the following for the year ended December 31, 2023:

Restricted for specific purposes:	
Economic Mobility Youth Programming	\$ 617,717
Sports and eSports	239,645
Industry clubs	2,201,613
Mental health programming	44,641
Youth development and general programming	20,000
Scholarships	8,183
Dick & Sandy Dauch Campus	50,000
Appropriation of endowment net assets	<u>92,530</u>
Total net assets released from restrictions	<u>\$ 3,274,329</u>

12. DONOR-RESTRICTED ENDOWMENT

Contributions to the endowment fund with donor restrictions include stipulations that the original principal of the gifts is to be held in perpetuity and invested by BGCSM. Income from the fund is to be used to support ongoing operations.

Investment Return Objectives, Risk Parameters and Strategies

BGCSM has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the board of directors, the endowment assets are invested to achieve the primary objective of being the safety of principal and secondary objective being income and growth.

Spending Policy

BGCSM's policy is to allocate funds from the endowment fund to defray the ordinary and necessary operating expenses of BGCSM on an annual basis. The allocation is limited to a maximum of seven percent of the fair value of the total assets held in the endowment fund as of September 30 and paid out by December 31 each year.

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Notes to Financial Statements

Interpretation of Relevant Law

The Board of Directors of the BGSCM has interpreted the State of Michigan Prudent Management of Institutional Funds Act (SPMIFA) 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, net assets with donor restrictions consist of the original value of gifts to the endowment and the original value of subsequent gifts to the endowment. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by use in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the BGSCM considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund,
- The purpose of the donor-restricted endowment fund,
- General economic conditions,
- The possible effect of inflation and deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the BGSCM, and
- The BGSCM's investment policies.

Funds with Deficiencies

From time to time, the donor-restricted endowment fund may have a fair value less than the amount required to be maintained by donors or by law (underwater endowments). The BGSCM has interpreted SPMIFA to permit spending from an underwater endowment in accordance with prudent measures required under law. At December 31, 2023, management has determined that the endowment was not underwater.

Endowment Borrowings

From time to time, the Board of Directors approved additional borrowings from the endowment fund to supplement the BGSCM's cash flows for operations. The current outstanding borrowing owed back to the endowment as of December 31, 2023 is \$348,000. The outstanding amount was repaid in February 2024.

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Notes to Financial Statements

The following is a summary of the BGCSM's endowment net assets and changes therein during and for the year ended December 31, 2023:

Endowment Net Asset Composition by Type of Fund as of December 31, 2023:

Donor restricted endowment fund:	
Original donor restricted amount and amounts required to be maintained in perpetuity by donor	\$ 1,033,359
Accumulated investment gains	<u>871,828</u>
Total funds	<u>\$ 1,905,187</u>

Changes in endowment net assets all of which are donor restricted:

Endowment net assets - beginning of year as restated (Note 14)	1,745,127
Net investment gain	252,590
Appropriation of endowment net assets for operating expenditures	<u>(92,530)</u>
Endowment net assets, end of year	<u>\$ 1,905,187</u>

13. RELATED PARTY TRANSACTIONS

BGCSM had transactions with related parties during the year ended December 31, 2023 as follows:

- BGCSM's Board of Directors includes officers of the lessor from whom BGCSM leases office space. Office lease expense under this arrangement has been recognized in the statement of activities under contributed nonfinancial assets.
- An employee owns a sporting store with whom BGCSM purchases goods from.
- Family members of BGCSM's management provide professional services to BGCSM.
- Employees of BGCSM are paid as vendors

Expenses incurred in these related-party transactions are summarized as follows for the year ended December 31, 2023:

Office lease	\$ 78,052
Sporting goods	269,405
Professional services provided by family members	30,460
Professional services provided by employees	9,469

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14. RESTATEMENT

During 2023, management of BGCSM determined there were misstatements related to their endowment, resulting in a restatement of net assets. The following table outlines the impact from the misstatement as of January 1, 2023:

	As Previously Reported	As Restated	Effect of Change
Net Assets			
Beginning balances January 1, 2023:			
With donor restrictions	\$ 5,339,333	\$ 6,051,101	\$ 711,768
Without donor restrictions	4,535,554	3,823,786	(711,768)
	<u>\$ 9,874,887</u>	<u>\$ 9,874,887</u>	<u>\$ -</u>

