BOYS & GIRLS CLUBS OF DEEP EAST TEXAS, INC.

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2022

BOYS & GIRLS CLUBS OF DEEP EAST TEXAS, INC.

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FINANCIAL SECTION

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Certified Public Accountants

Independent Auditor's Report

Members of the Corporate Board
Boys & Girls Clubs of Deep East Texas, Inc.
Nacogdoches, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Boys & Girls Clubs of Deep East Texas, Inc. (the "Corporation"), a Texas nonprofit organization, which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2022, 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 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the 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 audit opinions.

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 the Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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 the Corporation'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 Corporation'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 schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2023, on our consideration of the Corporation’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 the Corporation’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 the Corporation’s internal control over financial reporting and compliance.

Goff & Herrington, P.C.

GOFF & HERRINGTON, P.C.
Certified Public Accountants

June 5, 2023

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FINANCIAL STATEMENTS

BOYS & GIRLS CLUBS OF DEEP EAST TEXAS, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022

ASSETS		
Current Assets:		
Cash and cash equivalents	$	1,007,843
Grant and contract receivables		109,253
Other receivables		2,460
Prepaid assets		34,851
Total Current Assets		1,154,407
Capital Assets:		
Land		170,595
Buildings and improvements		5,928,395
Furniture and equipment		264,425
Vehicles		124,586
Construction in progress		113,380
Total Capital Assets		6,601,381
Accumulated depreciations		(3,623,040)
Total Net Capital Assets		2,978,341
Other Assets:		
Investment account		1,184,212
Brokerage account		19,924
Real property, held for investment		96,288
Land held for sale		600
Total Other Assets		1,301,024
Total Assets	$	5,433,772
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$	34,888
Accrued liabilities		60,711
Unearned revenues		41,383
Total Current Liabilities		136,982
Total Liabilities		136,982
Net Assets:		
Without donor restrictions		4,196,473
With donor restrictions		1,100,317
Total Net Assets		5,296,790
Total Liabilities and Net Assets	$	5,433,772

The accompanying notes are an integral part of these financial statements

BOYS & GIRLS CLUBS OF DEEP EAST TEXAS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES:			
General donations	$ 162,881	$ 38,000	$ 200,881
Federal grants	1,132,076	-	1,132,076
Other grants and foundations	469,035	185,000	654,035
Activity and membership fees	398,435	-	398,435
Net investment income (loss)	(219,380)	-	(219,380)
Rental Income	266,239	-	266,239
Other income	22,793	-	22,793
Revenues from special events:			
Gross proceeds from special events	215,283	-	215,283
Less: direct benefits to donors	(33,293)	-	(33,293)
Net revenue from special events	181,990	-	181,990
	2,414,069	223,000	2,637,069
Net assets released from restrictions	405,511	(405,511)	-
Total Revenues	2,819,580	(182,511)	2,637,069
EXPENSES:			
Program Expenses:			
Club operations	2,780,702	-	2,780,702
Administrative	285,605	-	285,605
Fund raising	163,688	-	163,688
Total Expenses	3,229,995	-	3,229,995
Change in Net Assets	(410,415)	(182,511)	(592,926)
Net Assets, Beginning of Year	4,606,888	1,282,828	5,889,716
Net Assets, End of Year	$ 4,196,473	$ 1,100,317	$ 5,296,790

BOYS & GIRLS CLUBS OF DEEP EAST TEXAS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Functional Classification			
	Club Operations	Administrative	Fund Raising	Total
Salaries	$ 1,414,762	$ 135,051	$ 124,326	$ 1,674,139
Fringe benefits and payroll taxes	216,931	20,708	19,063	256,702
Office and technology	32,505	59,999	-	92,504
Insurance	64,055	10,079	-	74,134
Rent	18,153	-	18,518	36,671
Telephone	10,954	3,418	-	14,372
Utilities	160,792	5,761	-	166,553
Advertising	6,646	3,846	-	10,492
Maintenance	122,803	7,166	-	129,969
Training	42,040	4,478	-	46,518
Transportation	39,634	1,759	-	41,393
Contractual services	153,925	-	-	153,925
Professional fess	325	14,750	-	15,075
Licenses, fees, and dues	8,897	2,297	-	11,194
Postage	490	1,927	-	2,417
Activity costs	264,587	11,963	1,781	278,331
Depreciation	217,992	1,882	-	219,874
Other	5,211	521	-	5,732
Total Program Expenses	$ 2,780,702	$ 285,605	$ 163,688	$ 3,229,995

BOYS & GIRLS CLUBS OF DEEP EAST TEXAS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

Cash Flows from Operating Activities:		
Increase (decrease) in net assets	$	(592,926)
Adjustments to reconcile increase (decrease) in nets assets		
to net cash provided by operating activities:		
Depreciation		219,874
Net realized losses on sale of investments		159,180
(Increase) Decrease in operating assets:		
Grants receivable		(75,452)
Other receivables		70,563
Prepaid assets		(15,647)
Increase (decrease) in operating liabilities:		
Accounts payable		(33,515)
Accrued liabilities		(17,985)
Unearned revenues		1,440
Net cash provided by (used in) operating activities		(284,468)
Cash Flows from Investing Activities:		
Proceeds from maturities and sales of investments		1,196,314
Purchases of investments		(1,124,367)
Purchases of property and equipment		(61,589)
Net cash flows provided by (used in) investing activities		10,358
Net increase (decrease) in cash and cash equivalents		(274,110)
Cash and cash equivalents, beginning of year		1,281,953
Cash and cash equivalents, end of year	$	1,007,843

The accompanying notes are an integral part of these financial statements

ORGANIZATION AND OPERATION

The Boys & Girls Clubs of Deep East Texas, Inc. (the "Corporation"), is a Texas non-profit corporation, which provides behavior guidance and promotes the health, educational, social, and vocational and character development of youth, irrespective of race, color, creed, or national origin. The Corporation has six operating units throughout the Deep East Texas area, specifically in Nacogdoches, Lufkin, Diboll, San Augustine, Livingston, and Silsbee. Revenues are derived mainly from contributions, grants, and fundraising events. The amount of funding received is dependent on the overall economic conditions in these areas.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

Concentrations of Credit Risk: Financial instruments, which subject the Corporation to concentrations of credit risk, consist principally of cash and cash equivalents, investments, and receivables. The Corporation places its cash and cash equivalents with high credit quality financial institutions. At times, deposits with these financial institutions exceeded insured limits. The Corporation has not experienced any losses in such accounts and believes that it is not exposed to any significant financial risk on cash.

Generally, no collateral or other security is required to support receivables. An allowance for doubtful accounts is established and accounts written off as needed based upon factors surrounding the credit risk of specific contributors. Management believes that all contributions, pledges and other receivables are collectible; therefore, no allowance for doubtful accounts has been recorded at December 31, 2022.

Donor Restrictions of Revenue and Support: Contributions without donor restrictions are recognized as support when received. The Corporation reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions whose restrictions are met in the same year are reported as support without donor restrictions.

Support is received from solicitations for general donations and memberships to entities and individuals located in the Deep East Texas region. Support is also obtained by holding fundraising events and applying for grants. Additionally, the Corporation offers fee-based activities at certain locations, such as youth football, gymnastics, and swimming. Revenue with donor restrictions generally consists of grants to be used for operations of a particular period, location or purpose or contributions to specific building funds. Program and supporting service expenses are determined by the Board of Directors which is composed of residents from the region for which the contributions are received.

<u>Income Tax Status:</u> The Corporation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986 and, therefore, has no provision for federal income taxes. The Corporation is not a private foundation within the meaning of Section S0l(a} of the Internal Revenue Code. Form 990 is filed annually.

The Corporation believes that all significant tax positions utilized by the Corporation will "more likely than not" be sustained upon examination. As of December 31, 2022, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2017 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as general and administrative expense in the statement of activities.

<u>Cash and Cash Equivalents:</u> For the purposes of the statements of cash flows, the Corporation considers all unrestricted, highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, which include petty cash, demand deposits, and certain money market accounts.

<u>Fixed Assets:</u> Acquisitions of buildings, equipment, and improvements and all expenditures for repairs, greater than $2,500,that materially prolong the useful lives of assets are capitalized. Fixed assets are stated at cost less accumulated depreciation.

Depreciation is provided by use of the straight-line method over the estimated useful lives of the assets. Depreciation is calculated for buildings over 30 years, equipment over 10 years, and vehicles over 10 years. Donated assets are stated at fair value at the time of donation.

<u>Investments:</u> Investments are stated at market value, The difference between the cost and market value is included in investment income on the statement of activities. The effects of those market value changes are included in the changes in net assets without donor restrictions because the income from these funds is unrestricted. Market values for the investment account at December 31, 2022 was obtained from Southside Bank and Stephens, Inc., the trustees of the funds. Market values for real property received were valued by a third party prior to receipt.

The Corporation classifies all land that is donated by individuals, that is not usable for the operating activities of the Corporation, as available for sale to support operating activities.

<u>Financial Statement Presentation:</u> Information regarding the financial position and activities of the Corporation is reported in two categories as follows:

> Without Donor Restrictions - represent expendable funds available for operations which are not otherwise limited by donor restrictions.
>
> With Donor Restrictions - consist of contributed funds subject to donor imposed restrictions related to a specific purpose, requiring a specific passage of time before the funds can be spent, or are subject to irrevocable donor restrictions requiring the assets be maintained in perpetuity for the purpose of generating investment income to fund current operations.

<u>Use of Estimates:</u> The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, expenses, gains, losses and other changes in net assets during the reported period. Actual results could differ from those estimates.

Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Expenses which directly benefit a specific program are charged to the program benefitted. Certain other costs benefit more than one program and accordingly are allocated to the various programs and supporting services benefitted.

Subsequent Events: Management has evaluated subsequent events through June 5, 2023, the date the financial statements were available to be issued.

LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Corporation's primary liquidity resources are grant receipts, donations from the general public, and activity and membership fees related to clubhouse operations.

The Corporation's financial assets as of December 31, 2022, are reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions or internal designations. There were no internal designations for expenditure as of December 31, 2022. Amounts restricted by donors includes $66,859 for the Lufkin renovation project. Amounts restricted by donors for 2023 operations are considered to be available to meet cash needs for general expenditures within one year.

The Corporation has $1,052,697 of financial assets available within one year of the statement of financial position date to meet cash needs for general operating expenditures, consisting of cash in banks of $1,007,843, less cash restricted by donor of $66,859, and grants and other receivables of $111,713.

CASH AND INVESTMENTS

The Corporation maintains its cash balances at three financial institutions located in East Texas. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. At various times during the year cash balances may exceed insured limits. At December 31, 2022, balances exceeded federally insured limits by approximately $59,000. The Corporation has not experienced any losses in such accounts.

Investments with a cost of $1,241,086, are in long-term certificates of deposit and mutual funds with local banks and are included as other non-current assets on the statement of financial position.

GRANTS RECEIVABLE

Grants receivable at December 31, 2022 consist of the following:

21st Century Community Learning Centers Grant	80,840
TCLAS High-Quality After School Grant	28,413
Total	109,253

PROPERTY AND EQUIPMENT

Activity in the property and equipment accounts can be summarized as follows:

	Balance January 1, 2022	Additions	Adjustments/ Retirements	Balance December 31, 2022
Land	170,595	-	-	170,595
Buildings and improvements	5,402,168	-	526,227	5,928,395
Furniture and equipment	361,729	13,110	(110,414)	264,425
Vehicles	200,232	-	(75,646)	124,586
Construction in progress	591,127	48,479	(526,226)	113,380
Total Fixed Assets	6,725,851	61,589	(186,059)	6,601,381
Accumulated depreciation	(3,589,225)	(219,874)	186,059	(3,623,040)
Fixed Assets, net	3,136,626	(158,285)	-	2,978,341

Depreciation expense for the year ended December 31, 2022 was $219,874.

NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the remaining portion of donations that restrict the use of funds to specific capital projects, operations benefitting the children and residents of Nacogdoches County, and amounts restricted for use during future periods. Net assets with donor restrictions were as follows:

	Restricted Balance January 1, 2022	Restrictions Additions	Restrictions Released	Restricted Balance December 31, 2022
Nacogdoches operations	880,969	-	(70,511)	810,458
Lufkin renovation project	66,859	-	-	66,859
Time restrictions - operations	335,000	223,000	(335,000)	223,000
Fixed Assets, net	1,282,828	223,000	(405,511)	1,100,317

FAIR VALUE MEASUREMENTS

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities, Level 1 measurements, and the lowest priority to measurements involving significant unobservable inputs, Level 3 measurements. The Corporation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Corporation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value; Level 3 inputs were only used when Level 1 or Level 2 inputs were not available. 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 Corporation has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

- Level 3 inputs are unobservable inputs for the asset or liability. Investments whose values are classified as Level 3 prices have significant unobservable inputs, as they may trade infrequently or not at all. When observable prices are not available for these securities, the Corporation uses one or more valuation techniques for which sufficient and reliable data is available.

Following is a description of the valuation methodologies used for assets measured at fair value:

Cash Equivalents - Valued at a rate equivalent to the current United States Dollar.

Mutual Funds - Valued at the observable market rate for the exact security in an active market (bond and equity mutual funds).

Real Property and Mineral Rights - Valued by an external entity at the expected market value for such property and rights in the locations these assets are located.

Investments are reported at fair value in the accompanying statement of financial position at December 31, 2022 as follows:

		FAIR VALUE MEASUREMENTS AT REPORTING DATE		
	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Cash and cash equivalents	26,072	26,072	-	-
Mutual Funds - bonds	463,929	463,929	-	-
Mutual Funds - equities	714,135	714,135	-	-
Real property and mineral rights	96,288	-	-	96,288
Total Investments	1,300,424	1,204,136	-	96,288

The real property and mineral rights received are presented at the value of their most recent valuation, April 2, 2015. These assets were received by the Corporation as the beneficiary of an estate during the year ended December 31, 2017.

EMPLOYEE BENEFIT PLAN

The Corporation participates in the Boys and Girls Clubs of America Pension Trust Plan, a defined contribution plan. All employees who have worked 1,000 hours in each of the two previous years, and are 21 years of age, are eligible to participate and are 100% vested after the first year of participation. Contributions by the Corporation were $56,832 for the year ended December 31, 2022.

COMPENSATED ABSENCES

Employees earn between 10 and 20 personal time off days per year depending on years of service and employment status. Any unused days not banked lapse at December 31 each year. Unused time is payable upon resignation for employees who provide at least two weeks notice. The Corporation had no liability to employees for accumulated unpaid vacation or sick leave benefits at December 31, 2022.

AFFILIATION WITH BOYS AND GIRLS CLUBS OF AMERICA, INC.

The Corporation is voluntarily affiliated with Boys and Girls Clubs of America, Inc. (BGCA). In addition to participating in the Pension Trust discussed above, the Corporation paid dues to BGCA amounting to $7,653 during 2022. Dues entitle the Corporation to staff training, program support, and the opportunity to participate in grants arranged by BGCA.

FUNCTIONAL ALLOCATION OF EXPENSES

The Corporation allocates expenses between program ("Club Operations"), management and general ("Administrative"), and fundraising expense categories based on the perceived benefit. Expenses are primarily directly allocated to programs and support functions during accounts payable and payroll processing using the following methods:

- Employee salary and wage costs are allocated to programs and support based on time reported on weekly time sheets. Payroll tax and benefit costs are allocated proportionately with time across functions.
- Professional fees and contract services are generally allocated to support functions, unless they are incurred in direct facilitation of program operations.
- Assets are assigned to specific programs or for administrative use at acquisition. Depreciation incurred over the life of the asset and losses incurred upon disposal are allocated to functional expense categories based on the function to which the assets are assigned. Depreciation for asset assigned as used in administration are reported in the related expense category.
- All other costs are allocated to the functional expense categories based on management knowledge of the activities.
- Salaries, benefits, and payroll taxes for personnel related to multiple functional expense categories are allocated to these categories based on an estimate, developed by management, of the time the personnel spent benefitting these functions.

COMMITMENTS AND CONTINGENCIES

Federal awards received by the Corporation are subject to audit and adjustment by the funding agency or their representatives. If federal grant revenues are received for expenses which are subsequently disallowed, the Corporation may be required to repay the revenues to the funding agency. In the opinion of management, liabilities resulting from such disallowed expenses, if any, will not be material to the accompanying financial statements at December 31, 2022.

RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters and maintains commercial insurance coverage covering risks of loss. The Corporation believes such coverage is sufficient to preclude any significant uninsured losses.

PRIOR PERIOD ADJUSTMENT

During the fiscal year ended December 31, 2022, the Corporation identified and reclassified $63,306 of net assets without donor restrictions that had been previously reported as net assets with donor restrictions. This correction had no effect on total net assets at December 31, 2022 or 2021, or on total change in net assets for the years then ended.

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FEDERAL AWARDS SECTION

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Certified Public Accountants

INDEPENDENT AUDITOR'S 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*

Members of the Board of Directors of
Boys & Girls Clubs of Deep East Texas, Inc.
Nacogdoches, Texas

Members of the Board:

We have audited, in accordance with the 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 the governmental activities, each major fund, and the aggregate remaining fund information of the Boys & Girls Clubs of Deep East Texas, Inc. (the "Corporation"), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated June 5, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Boys & Girls Clubs of Deep East Texas, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's 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 determination of financial statement amounts. 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.*

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.

Goff & Herrington, P.C.

GOFF & HERRINGTON, P.C.
Certified Public Accountants

June 5, 2023

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Boys & Girls Clubs of Deep East Texas, Inc.'s (the "Corporation") 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 the Corporation's major federal programs for the year ended December 31, 2022. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

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 Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Corporation 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 the Corporation's compliance with the compliance requirements referred to above.

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 the Corporation's federal programs.

Auditor's 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 the Corporation's 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 the Corporation's 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 the Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

Obtain an understanding of the Corporation's 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 the Corporation's 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

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. 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 consideration of internal control over compliance was for the limited purpose described in the Auditor's 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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.

Goff & Herrington, P.C.

GOFF & HERRINGTON, P.C.
Certified Public Accountants

June 5, 2023

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BOYS & GIRLS CLUBS OF DEEP EAST TEXAS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	__yes _X_no
Significant deficiencies identified that are not considered to be material weaknesses?	___yes _X_no
Noncompliance material to financial statements noted?	___yes _X_no

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	__ yes _X_no
Significant deficiencies identified that are not considered to be material weaknesses?	__ yes _X_none reported
Type of auditor's report on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	__ yes _X_no

Identification of Major Programs

FALN 84.287C	Nita M. Lowey 21st Century Community Learning Centers

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as a low risk auditee?	___ yes _X_no

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

BOYS & GIRLS CLUBS OF DEEP EAST TEXAS, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2022

No prior year findings reported.

BOYS & GIRLS CLUBS OF DEEP EAST TEXAS, INC.
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2022

None Required

BOYS & GIRLS CLUBS OF DEEP EAST TEXAS, INC.
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

Federal Grantor/ Pass-Through Grantor/ Program title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed through Texas Education Agency:			
Nita M. Lowey 21st Century Community Learning Centers	84.287C	236950307110008	872,699
TCLAS High-Quality After School Grant	84.425U	215280587110019	210,484
Passed through Texas Education Agency			1,083,183
Total Department of Education			1,083,183
U.S. Department of Justice			
Passed through Boys and Girls Clubs of America:			
Office of Juvenile Justice Delinquency Prevention	16.726	2021-50647	22,172
Office of Juvenile Justice Delinquency Prevention	16.726	2021-50648	23,331
Office of Juvenile Justice Delinquency Prevention	16.726	2021-50649	3,390
Total Department of Justice			48,893
Total Expenditures of Federal Awards			**1,132,076**

BOYS & GIRLS CLUBS OF DEEP EAST TEXAS, INC.
NOTES TO SUPPLEMENTARY
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Boys & Girls Clubs of Deep East Texas, Inc. (the "Corporation") under programs of the federal government for the year ended December 31, 2022. The information on this Schedule is prepared in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Corporation.

Summary of Significant Accounting Policies:

Expenditures are reported on the Schedule on the accrual basis of accounting.

Federal grant funds are considered to be earned when all eligibility requirements have been met. Any excess of revenues or expenditures is recorded as unearned revenues or accounts receivable, respectively.

The disbursement of funds received under federal grant programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Corporation. In the opinion of management, such disallowed claims, if any, will not have a material effect on any of the financial statements or on the overall financial position of the Corporation at December 31, 2022.

The Corporation has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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