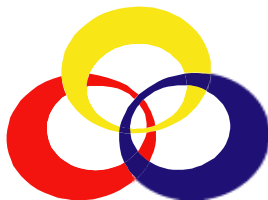


Audit Report
For the Years Ended
December 31, 2022 and 2021



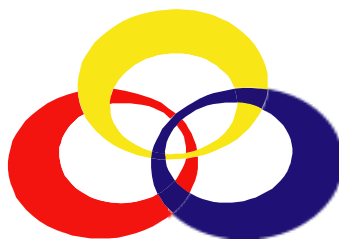
BOYS & GIRLS CLUB
OF WATERTOWN, INC.



Kinner & Company Ltd
Certified Public Accountants
Taxes, QuickBooks &
Investments

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
TABLE OF CONTENTS
DECEMBER 31, 2022

	<u>Page</u>
Independent Auditor's Report	1 – 2
Statements of Financial Position	3
Statements of Activities	4
Statement of Functional Expenses	5 – 6
Statements of Cash Flows	7
Notes to the Financial Statements	8 – 18



Kinner & Company Ltd

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Boys and Girls Club of Watertown, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Boys and Girls Club of Watertown, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Boys and Girls Club of Watertown, Inc. as of December 31, 2022 and 2021 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 Auditor's Responsibilities for the Audit of the Financial Statements section of this report. We are required to be independent of Boys and Girls Club of Watertown, Inc. 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 opinion.

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 Boys and Girls Club of Watertown, Inc.'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 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 and audit in accordance with general 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 Boys and Girls Club of Watertown, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Boys and Girls Club of Watertown, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Kinner + Company Ltd.

Kinner & Company Ltd
Certified Public Accountants
Brookings, South Dakota

March 9, 2023

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

ASSETS	<u>2022</u>	<u>2021</u>
Current Assets		
Cash and Cash Equivalents	\$ 1,357,338	\$ 926,933
Employee Retention Credit Receivable	-	256,214
Accounts Receivable	37,512	16,036
Inventory	8,240	9,427
Prepaid Insurance	21,257	21,944
Total Current Assets	<u>1,424,347</u>	<u>1,230,555</u>
Property and Equipment		
Buildings and Improvements	3,867,420	3,867,420
Equipment	497,965	438,214
Accumulated Depreciation	(736,323)	(569,369)
Total Property and Equipment	<u>3,629,062</u>	<u>3,736,265</u>
Other Assets		
Contributions Receivable, net of discounts	186,125	3,750
Franklin Templeton Investment	85,471	99,382
Watertown Endowment- Assets Whose Use is Limited	972,432	1,123,123
Deferred Charges	1,137,353	1,137,353
Accumulated Amortization	(863,214)	(834,780)
Total Other Assets	<u>1,518,166</u>	<u>1,528,828</u>
TOTAL ASSETS	<u>\$ 6,571,575</u>	<u>\$ 6,495,648</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 11,312	\$ 29,522
Accrued Vacation	41,905	44,828
Accrued Salaries	18,891	16,030
Total Current Liabilities	<u>72,108</u>	<u>90,380</u>
TOTAL LIABILITIES	<u>72,108</u>	<u>90,380</u>
Net Assets		
Without Donor Restrictions		
Undesignated	5,441,565	5,177,762
Designated by Board	1,057,902	1,222,506
With Donor Restrictions		
Purpose Restricted	-	5,000
TOTAL NET ASSETS	<u>6,499,467</u>	<u>6,405,268</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,571,575</u>	<u>\$ 6,495,648</u>

See notes to the financial statements

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022			2021		
	Without Donor	With Donor	Total	Without Donor	With Donor	Total
	Restrictions	Restrictions	Total	Restrictions	Restrictions	Total
Revenues and Gains, and Other Support						
Agency subsidies	\$ 169,500	\$ -	\$ 169,500	\$ 149,600	\$ -	\$ 149,600
Fundraising and donations	316,848		316,848	285,044		285,044
Grants	992,986		992,986	475,873		475,873
PPP Loan Forgiveness	-		-	329,010		329,010
Additional Employee Retention Credit	22,899		22,899	256,214		256,214
Membership dues	212,451		212,451	209,401		209,401
Fee based programs						
Kidscope	164,938		164,938	137,919		137,919
Arrow Prep	59,860		59,860	143,785		143,785
Main Club Site	13,895		13,895	48,334		48,334
Food service						
Kidscope	2,205		2,205	4,374		4,374
Arrow Prep	2,353		2,353	7,686		7,686
Main Club Site	68,093		68,093	52,923		52,923
In-Kind Donations	13,170		13,170	9,220		9,220
Rent, vending and other	9,853		9,853	4,317		4,317
Interest and dividends	14,162		14,162	5,216		5,216
Sale of Equipment	-		-	6,533		6,533
Net realized and unrealized gain (loss) on long-term investments	(156,455)		(156,455)	131,927		131,927
Net Assets Released from (Transferred to) Restrictions	5,000	(5,000)	-	60,131	(60,131)	-
Total Revenues, Gains, and Other Support	1,911,759	(5,000)	1,906,759	2,317,506	(60,131)	2,257,375
EXPENSES						
Kidscope	150,738		150,738	146,770		146,770
Arrow Prep	111,700		111,700	170,483		170,483
Management and General	1,421,022		1,421,022	1,241,261		1,241,261
Fundraising	129,101		129,101	132,375		132,375
Total Expenses	1,812,560		1,812,560	1,690,890		1,690,890
Change in Net Assets	99,199	(5,000)	94,199	626,616	(60,131)	566,485
Net Assets, Beginning of Year	6,400,268	5,000	6,405,268	5,773,652	65,131	5,838,783
Net Assets, End of Year	\$ 6,499,467	\$ -	\$ 6,499,467	\$ 6,400,268	\$ 5,000	\$ 6,405,268

See notes to the financial statements

**BOYS AND GIRLS CLUB OF WATERTOWN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Program Services			Supporting Activities			Total Expenses
	Kidscope	Arrow Prep	Program Subtotal	Management and General	Fundraising	Supporting Subtotal	
Administrative salaries	\$ 8,677	\$ 6,451	\$ 15,128	\$ 252,264	\$ 21,726	\$ 273,990	\$ 289,118
Program salaries	96,360	64,989	161,349	473,873	40,966	514,839	676,188
Payroll taxes	8,176	5,695	13,871	63,435	-	63,435	77,306
Employee benefits	9,184	5,443	14,627	38,227	24,860	63,086	77,713
Professional fees	-	-	-	10,620	-	10,620	10,620
Insurance	4,676	2,021	6,698	35,704	-	35,704	42,402
Telephone	710	578	1,289	6,902	-	6,902	8,191
Office	-	-	-	25,183	-	25,183	25,183
Marketing	-	52	52	10,648	-	10,648	10,700
Staff development	1,386	1,066	2,452	24,352	-	24,352	26,804
Food service	14,901	4,767	19,669	92,019	-	92,019	111,688
Program expenses	3,617	3,103	6,720	62,114	-	62,114	68,834
Depreciation	-	-	-	195,387	-	195,387	195,387
Repairs and maintenance	2,682	1,430	4,112	101,216	-	101,216	105,328
Vehicle	-	-	-	2,931	-	2,931	2,931
Board development	-	-	-	2,839	-	2,839	2,839
Resource development	-	-	-	-	41,549	41,549	41,549
Banking / Investment Fees	-	-	-	11,625	-	11,625	11,625
BGCA dues	368	-	368	6,998	-	6,998	7,366
Refunds	-	16,103	16,103	-	-	-	16,103
Miscellaneous	-	-	-	4,686	-	4,686	4,686
Total Expenses	\$ 150,738	\$ 111,700	\$ 262,437	\$ 1,421,022	\$ 129,101	\$ 1,550,123	\$ 1,812,560

See notes to the financial statements

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Program Services			Supporting Activities			Total Expenses
	Kidscope	Arrow Prep	Program Subtotal	Management and General	Fundraising	Supporting Subtotal	
Administrative salaries	\$ 12,360	\$ 10,583	\$ 22,944	\$ 238,507	\$ 21,726	\$ 260,233	\$ 283,177
Program salaries	89,211	114,316	203,528	387,002	40,966	427,968	631,496
Payroll taxes	7,205	10,434	17,639	37,414	-	37,414	55,053
Employee benefits	10,655	10,141	20,796	29,348	24,860	54,208	75,004
Professional fees	-	-	-	8,995	-	8,995	8,995
Insurance	4,160	4,096	8,256	33,001	-	33,001	41,256
Telephone	816	741	1,557	6,414	-	6,414	7,971
Office	-	-	-	18,077	-	18,077	18,077
Marketing	-	-	-	4,642	-	4,642	4,642
Staff development	2,870	2,307	5,177	19,372	-	19,372	24,549
Food service	11,993	11,648	23,641	67,230	-	67,230	90,871
Program expenses	4,381	4,152	8,533	71,004	-	71,004	79,537
Depreciation	-	-	-	182,372	-	182,372	182,372
Repairs and maintenance	2,325	1,255	3,580	100,727	-	100,727	104,307
Vehicle	38	54	92	-	-	-	92
Board development	-	-	-	5,729	-	5,729	5,729
Resource development	-	-	-	-	44,824	44,824	44,824
Banking / Investment Fees	-	-	-	12,142	-	12,142	12,142
BGCA dues	756	756	1,512	6,050	-	6,050	7,562
Miscellaneous	-	-	-	13,234	-	13,234	13,234
Total Expenses	\$ 146,770	\$ 170,483	\$ 317,254	\$ 1,241,261	\$ 132,376	\$ 1,373,637	\$ 1,690,891

See notes to the financial statements

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash Flows From Operating Activities:		
Change in net assets	\$ 94,199	\$ 566,485
Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:		
Depreciation	195,387	182,372
Unrealized and realized (gain) loss /Investment Income/Fees	164,603	(132,971)
Payroll protection program loans forgiven	-	(329,010)
Cash provided by (used for):		
Accounts receivable	(21,477)	(1,583)
Employee retention credit receivable	256,214	(256,214)
Contributions receivable	(182,375)	47,380
Inventory	1,187	942
Prepaid insurance	687	(2,049)
Accounts payable	(18,210)	18,923
Accrued vacation	(2,923)	(975)
Accrued salaries	2,861	(29,221)
Net Cash (used for) provided by Operating Activities	490,155	64,079
Cash Flow From Investing Activities:		
Transfer of funds to endowment and money market	-	(50,000)
Purchase of property and equipment	(59,750)	(65,398)
Sale of equipment proceeds	-	6,533
Net Cash (used for) provided by Investing Activities	(59,750)	(108,865)
Cash flows from financing activities		
Cash inflows		
Payroll protection program loan		160,810
Net cash flows provided by financing activities	-	160,810
Net Increase (Decrease) in Cash and Cash Equivalents	430,405	116,024
Cash and Cash Equivalents, Beginning of Year	926,933	810,909
Franklin Templeton Investment	85,471	99,382
Watertown Community Endowment	972,432	1,123,123
Cash and Cash Equivalents and Investments, End of Year	\$ 2,415,240	\$ 2,149,438
Supplemental Disclosures of Cash Flow Information		
In-Kind Income / Expense	13,170	\$ 9,220

See notes to the financial statements

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

a. Nature of Business

The Boys and Girls Club of Watertown, Inc. (“Club”) is a nonprofit organization that seeks to inspire and enable all young people to realize their full potential as productive, responsible and caring citizens by providing behavior guidance and promoting health, social, educational, vocational and character development of youth in Watertown, South Dakota and surrounding communities.

The Club’s activities are conducted in a facility which is leased from the City of Watertown under terms discussed later in these notes.

b. Basis of Accounting

The financial statements of the Club have been prepared in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP). The accounting policies of the Club have been designed to conform to U.S. GAAP as applicable to not-for-profit organizations. Net assets and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Club and changes therein are classified and reported as follows:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

With donor restrictions- Net assets subject to donor-imposed stipulations that may or will be met wither by actions of the Club and /or the passage of time. This also includes net assets subject to donor-imposed stipulations that must be maintained permanently by the Club. Generally, the donors of these assets permit the Club to use all or part of the income earned on related investments for general or specific purposes.

c. Revenue Recognition

The Club uses the accrual basis of accounting. Under the accrual basis of accounting revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Contributions and Grant Revenue

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Conditional promises to give are not recognized until they become unconditional. The Club reports gifts or cash and other assets as restricted support if they are received with donor stipulations that limit the use of the assets, or if they are designated as support for future periods. 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. Donor-imposed contributions whose restrictions are met in the same reporting period are report as net assets without donor restrictions.

Net assets restricted for acquisition of buildings or equipment are reported as net assets with donor restrictions until the specified asset is place in service by the Club when the restrictions are released. Contributed materials are recorded as contributions, when received, at their fair market value when such value can be objectively and accurately determined.

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Membership Dues

The Club offers a \$25 membership for grades 1-12 and this amount includes meals which provides the member with a package benefit. Currently, the Club offers the member dues revenue is reported at the amount that reflects the consideration to which the Club expects to be entitled in exchange for providing the member access to the benefits.

Tuition and Fees Revenue

Arrow Prep and Kidscope fees are billed monthly or weekly for tuition, daycare and meals depending on the program and time of year. Arrow Prep is no longer running at the end of the year.

Teen Court is a non-judicial, juvenile diversion, intervention and prevention program used as an alternative to traditional juvenile court system. Youth are referred to Teen Court by the District Attorney, and the club charges them to help cover the Club's costs.

Tackle and Flag Football are fees that the parents are charged to cover the cost of the program, including equipment and referees.

Special Events Revenue

The Club holds periodic fund-raising events and reports the revenues generated, net of any direct operating cost, as revenue, gains, and other support in the accompanying consolidated statement of activities. These direct operating costs during 2022 and 2021 are as follows:

The Raffle event is usually put on every year for a chance to win a vehicle and a smaller piece of equipment. We sell tickets and also receive some sponsors from local businesses.

The Blue Derby Event is the Camel Race. Donors get a wooden, cutout camel which they can decorate. The night of the event each of the decorated camels race against each other by rolling dice. There are also tickets that can be purchased for the event and meal.

Pull tab income comes from a rental of pull tabs from area business. They purchase the pull tabs about once a month and get the profit from that month.

Teen events and vending income are from teen events held at the Club. They sometimes charge a fee per person. The teens use the vending machines and the profits from the vending machines go back to the teens for field trips or activities.

d. Basis of Presentation

Cash and Cash Equivalents

For purposes of reporting the statements of cash flows, the Club includes all unrestricted and undesignated cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less as cash and cash equivalents on the accompanying balance sheets. Because of their short-term nature, the fair value of cash equivalents approximates the carrying value. Cash and cash equivalents consist primarily of interest-bearing checking accounts, saving accounts and investments with a maturity date of three months or less.

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

e. Use of Estimates

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates that were used.

f. Accounts Receivable

Accounts receivable represent amounts owed to the Club from Federal, State and local governments for services rendered under contractual obligations and grants from the Boys and Girls Club of America. All outstanding accounts receivable are considered collectible and an allowance for uncollectible amounts was not reflected.

g. Contributions Receivable

Contributions receivable consist of unconditional promises to give and are recorded when the promises to contribute are made. Contributions receivable which are expected to be collected in more than one year are stated at the present value of estimated future receipts. The Club provides an allowance for uncollectible contributions based on historical collection experience.

h. In-Kind Contributions

Donated property, marketable securities and other noncash donations are recorded as contributions at their estimated fair value at the date of the donation.

12. Food Inventory

Food inventory is stated at the lower of cost (first-in, first-out method) or market.

j. Property and Equipment

Land, buildings and equipment is stated at cost or at estimated fair market value on the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives of five to forty years. The Club's policy is to capitalize those assets with a useful life greater than one year, and an initial acquisition cost of \$5,000 or above.

k. Investment in marketable equity securities

The Club has investments in marketable equity securities. Marketable equity securities consist primarily of mutual funds that are traded or listed on national exchanges.

Available-for-sale securities consist of marketable securities not classified as held-to-maturity. Available-for-sale securities are stated at fair value and unrealized holding gains and losses are included in the statement of activities.

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

2. FAIR VALUE MEASUREMENT

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820 establishes a framework for measuring fair value. That framework provides a 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 unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1

Valuations based on unadjusted quoted market prices for identical assets or liabilities in accessible and active markets

Level 2

Valuations based on pricing inputs that are other than quoted prices in active markets that are either directly or indirectly observable. Examples include quote prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3

Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and require significant professional judgment in determining the fair value assigned to such assets and liabilities. Level 3 investment comprise primarily alternative investments, which are not readily marketable.

The asset or liability’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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

Trading securities: Valued at the net realizable value of shares held by the Club at year-end.

The preceding method 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 Club believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

As of December 31, 2022 and 2021, the Club’s balances in investments accounts of \$85,471 and \$99,382, respectively, are considered level 2 assets.

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

3. ASSETS WHOSE USE IS LIMITED

A summary of investment securities at December 31, 2022 and 2021 follows:

Board Designated:	2022	2021
Mutual Funds, equity securities	\$ 85,471	\$ 99,382
Assets held by the Watertown Community Foundation for long-term investment	972,432	1,123,123
	\$ 1,057,903	\$ 1,222,505

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable are initially recorded at fair value as of the date of gift.

Contributions receivable are due as follows:

December 31,	2022	2021
Less than one year	\$ 201,125	\$ 3,750
Less: allowance for uncollectible contributions	-	
Less: present value discount of 5%	(15,000)	
	\$ 186,125	\$ 3,750

5. MAJOR SUPPORT AND COMMITMENTS

In 1985, the Club entered into an agreement with the City of Watertown to lease the operating facilities for 99 years at an annual rental of one dollar. The Club's leasing arrangement was modified in 1998 for an addition to the operating facilities at that time. The Club has recognized a contribution from the City in an amount equivalent to the cost of the space occupied by the Club in proportion to the cost of the entire building. Because of its nature, the contribution has been capitalized and is included as a component of buildings and improvements on the statement of financial position. The lease agreement includes a provision for contributed membership dues of \$204,450 for the year 2017, for year 2018 payments shall be increased by the lesser of the following: 3% of the previous year's payment; or the previous year's payment multiplied by the annual percentage change in the Consumer Price Index established by the South Dakota Department of Revenue pursuant to S.D.C.L §10-13-38. The amount received for the years ended December 31, 2022 and 2021, was \$191,700 and \$191,476, respectively, and has been reflected as a component of unrestricted revenue. This accounted for more than 10% of total unrestricted revenues of the Club for those years.

6. INCOME TAX MATTERS

The Club is a not-for-profit organization, which is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue code. In addition, the Club has been classified as an organization other than a private foundation under Section 509(a)(2). Accordingly, no provision for income taxes has been reflected in the financial statements.

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

7. ACCUMULATED PAID TIME OFF

All regular employees, both full-time and part-time, earn paid time off.

Regular Part-Time Employees:

If an employee works less than 40 hours per week, the accrued PTO is prorated based on the number of hours working during their regular schedule. For the first year of employment, all part-time employees will be eligible for PTO hours that equal one week of their normal schedule. New part-time employees will have a waiting period of no less than 90 days. After one year of employment, part-time employees will be eligible for two weeks of PTO based on their normal hours worked. After five years of employment, part-time employees are eligible for one additional day per year. The maximum PTO that can be earned by part-time employees will equal three weeks of their normal schedule.

Full-Time Employees:

Full-time employees earn vacation according to the following table:

Upon hire	20 Hours	10 Days
After first full year	30 Hours	15 Days
After five years	40 Hours	20 Days
After ten years	50 Hours	25 Days

All employees are allowed to carry-over PTO from one calendar year to the next. The maximum amount an employee can bank is 200 hours; hours accumulated over 200 will be forfeited without pay. Employees are highly encouraged to use their PTO. If organizational needs prevent the employee from taking scheduled time off, PTO hours accumulated over the maximum may be carried over and taken in the following quarter with prior approval from the Executive Director.

As of December 31, 2022 and 2021 the following liabilities existed for accumulated unpaid leave balances calculated at the employees' December pay rates:

	2022	2021
Vacation Pay	\$ 41,905	\$ 44,828

8. COPIER LEASE

The Club leases a Toshiba copier from Office Peeps. Terms of the lease is 63 months. Beginning August 2020, monthly rental fees are \$131. Annual future lease payments are as follows:

2023	1,572
2024	1,572
2025	1,572
2026	917

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

9. RISK CONCENTRATIONS – DEPOSITS AND INVESTMENTS

Cash and temporary investment deposit balances are held at financial institutions insured by the FDIC and SIPC.

At December 31, 2022 and 2021, cash and temporary cash investment balances were deposited in various financial institutions and included interest earned where applicable, had market values that are substantially the same as the carrying value in the accompanying financial statements.

The cash and investment balances at December 31, 2022, are categorized below to give an indication of the level of risk assumed by the Club at year-end.

Held in	Depository Balance by Category			Total	Carrying Amount
	1	2	3		
Banks	\$ 472,629	\$ -	\$ 902,607	\$ 1,375,236	\$ 1,357,338

The cash and investment balances at December 31, 2021, are categorized below to give an indication of the level of risk assumed by the Club at year-end.

Held in	Depository Balance by Category			Total	Carrying Amount
	1	2	3		
Banks	\$ 508,182	\$ -	\$ 423,202	\$ 931,384	\$ 926,933

Category 1 includes cash and investments that are insured or registered for which the accounts are held by the Club or its agent in the Club’s name and includes FDIC or equivalent insurance coverage.

Category 2 includes uninsured or unregistered cash and investments for which the securities are held by the financial institution trust department or agent in the Club’s name.

Category 3 includes all other uninsured and unregistered cash and investments.

Cash and investment balances exceeded insurable limits at various times throughout 2022 and 2021; the Club has not experienced any losses in the above accounts during either of those years. Uninsured balances were \$1,043,163 and \$597,877 as of December 31, 2022 and 2021, respectively.

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

10. WATERTOWN COMMUNITY ENDOWMENT FUND

The Club has donor-restricted endowment funds established for the purpose of securing the Club’s long-term financial viability and continuing to meet the operational needs of the Club. As required by GAAP, net assets of the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

By resolution the Boys and Girls Club of Watertown dated February 19, 2004 resolved a \$75,000 initial transfer for the ongoing and perpetual support of Boys and Girls Club of Watertown Endowment Fund. The Watertown Community Fund is authorized to accept gifts, grants and bequests on behalf of The Fund. All donations shall be subject to all of the provisions relating to The Fund and be used for the stated purposes of the Boys and Girls Club of Watertown. The Community Fund agrees to distribute net income from the fund as requested. The principal of The Fund may be withdrawn at the direction of and subject to agreement with the Boys and Girls Club and the Watertown Community Fund Board. Distributions of earnings from the investment of The Fund shall be at the discretion of the Boys and Girls Club. Any fund balance above donor principal may be used for distribution.

	<u>2022</u>	<u>2021</u>
Boys and Girls Club contribution	\$ 761,910	\$ 759,910
/grants from inception:		
Beginning of Year Value	\$ 1,123,123	\$ 960,666
Contributions/Transfers In	2,000	50,320
Earnings on Investments	36,197	44,652
Unrealized Gain (Loss)	(199,660)	60,496
Realized Gain (Loss)	20,919	17,585
Administrative Fees	(10,148)	(10,596)
Ending of Year Value	<u>\$ 972,432</u>	<u>\$ 1,123,123</u>

11. PENSION PLAN

The Club sponsors a retirement plan for employees who have completed two years of service, attained age 21 and work, on a regular basis, at least 1,000 hours annually. Employer contributions to the plan are discretionary and can range from no contribution to five percent of participants’ annual compensation. Total pension expense for the years ended December 31, 2022 and 2021, was \$27,776 and \$25,344, respectively.

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

12. RISK MANAGEMENT

The Club is exposed to various risks of loss related to torts; theft of, damage to, and destructions of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended December 31, 2022 and 2021, the Club managed its risks as follows:

Employee Health Insurance - The Club purchases health insurance for its employees from a commercial insurance carrier.

Liability Insurance - The Club purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier.

Workmen's Compensation - The Club purchases liability insurance for workmen's compensation from a commercial carrier.

Unemployment Benefits - The Club provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

13. NET ASSETS

Net assets without donor restrictions consist of the following:

December 31,	<u>2022</u>	<u>2021</u>
Property and equipment	\$ 3,629,062	\$ 3,736,265
Board designated	1,057,902	1,222,506
Undesignated net assets	<u>1,815,628</u>	<u>1,441,497</u>
	<u>\$ 6,502,592</u>	<u>\$ 6,400,268</u>

With donor restrictions net asset are available for the following purposes:

December 31,	<u>2022</u>	<u>2021</u>
Capital Campaign	\$ 0	\$ 3,750

The intent of the Club's capital fundraising campaign was to remodel the current location of the Club. The project was completed in 2018. Pledges will still be coming in through 2022.

14. SIGNIFICANT RISKS AND UNCERTAINTIES

For the years ended December 31, 2022 and December 31, 2021, the Club received approximately 67% of its revenue from state and federal agency grants for both years. This concentration makes the Club vulnerable to the risk of a near-term severe impact if state or federal funding were discontinued. The COVID 19 pandemic has created significant uncertainties. The Club does not know how this will affect next year's financial position and has no way of knowing how it will affect future fiscal years.

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

15. METHODS USED FOR ALLOCATION OF EXPENSES AMONG PROGRAM AND SUPPORTING SERVICES

The financial statements report certain categories of expenses that are attributable to one or more program or supporting service of the Club. These costs are allocated to these categories on a direct cost method or allocated on the management's best estimate of usage.

16. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Club's working capital and cash flows have variations during the year attributable to fundraising, donation, and membership timing. The Club structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Club has investments in various short-term investments, including certificates of deposits.

The following reflects the Club's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of donor-imposed restrictions or internal designations. Amounts not available include assets set aside for long-term investing in operating reserves that could be drawn upon if the governing board approves that action.

	2022	2021
Cash and Cash Equivalents	\$ 1,357,338	\$ 926,933
Assets whose use is limited	1,057,903	1,222,506
Contribution Receivable	186,125	3,750
Accounts Receivable	36,387	16,182
Total financial assets	2,637,753	2,169,371
Contractual or donor-imposed restrictions:		
Purpose restricted	0	3,750
Board designated	1,057,903	1,222,506
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,579,850	\$ 943,115

17. NOTES PAYABLE/PPP FORGIVEN

In April 2020, Boys and Girls Club of Watertown received a Paycheck Protection Program (PPP) loan due to COVID 19 pandemic. This loan was forgiven on March 10, 2021. The Club received a 2nd PPP loan of \$160,810 on February 27, 2021, which was forgiven on September 29, 2021.

BOYS AND GIRLS CLUB OF WATERTOWN, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

18. DEFERRED CHARGES

In 1985, the Club entered into an agreement with the City of Watertown to lease the operating facilities for 99 years at an annual rental of one dollar. The Club's leasing arrangement was modified in 1998 for an addition to the operating facilities at that time. The Club has recognized a contribution from the City in an amount equivalent to the cost of the space occupied by the Club in proportion to the cost of the entire building. Because of its nature, the contribution has been capitalized and is included as a component of buildings and improvements on the statement of financial position. Amortization expense for the years ending December, 31, 2021 and 2022 was \$28,434 and \$28,434, respectively.

Deferred Charges	\$1,137,353
Accumulated Amortization	<u>(863,214)</u>
Net	<u>\$ 274,139</u>

19. NEW ACCOUNTING STANDARDS UPDATE

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the consolidated statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statement of activities. The new standard is in effect for the Club's year ending December 31, 2021. The Club currently does not have leases under the new guidance.

20. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 9, 2023, the date the financial statements were available to be issued. Subsequent event occurring after March 9, 2023, have not been evaluated by management. No material events have occurred since December 31, 2022, that require recognition or disclosure in the financial statements.