

**Houston Area Women's Center**

Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2019 and 2018

# Houston Area Women's Center

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## Independent Auditors' Report

To the Board of Directors of  
Houston Area Women's Center:

### Report on the Financial Statements

We have audited the accompanying financial statements of Houston Area Women's Center, which comprise the statements of financial position as of December 31, 2019 and 2018 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

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

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houston Area Women's Center as of December 31, 2019 and 2018 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2020 on our consideration of Houston Area Women's Center'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 Houston Area Women's Center'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 Houston Area Women's Center's internal control over financial reporting and compliance.

*Blazek & Vetterling*

July 28, 2020

## Houston Area Women's Center

Statements of Financial Position as of December 31, 2019 and 2018

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	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 368,351	\$ 456,380
Contributions receivable, net: <i>(Note 4)</i>		
Government grants receivable	545,717	622,784
United Way allocation	630,000	624,137
Contributions receivable, other	586,671	451,962
Prepaid expenses and other receivables	149,261	122,920
Investments <i>(Note 5)</i>	7,565,523	6,421,301
Property, net <i>(Note 6)</i>	<u>5,917,584</u>	<u>6,166,982</u>
 TOTAL ASSETS	 <u>\$ 15,763,107</u>	 <u>\$ 14,866,466</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 254,243	\$ 147,185
Accrued expenses	476,817	251,522
Deferred revenue	8,736	69,454
Capital lease obligations <i>(Note 7)</i>	<u>29,410</u>	<u>71,075</u>
Total liabilities	<u>769,206</u>	<u>539,236</u>
Net assets:		
Without donor restrictions <i>(Note 8)</i>	12,278,857	11,938,623
With donor restrictions <i>(Notes 9 and 10)</i>	<u>2,715,044</u>	<u>2,388,607</u>
Total net assets	<u>14,993,901</u>	<u>14,327,230</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 15,763,107</u>	 <u>\$ 14,866,466</u>

*See accompanying notes to financial statements.*

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## Houston Area Women's Center

Statement of Activities for the year ended December 31, 2019

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (Note 11)		\$ 3,378,275	\$ 3,378,275
United Way allocation		630,000	630,000
Other	\$ 2,097,756	916,936	3,014,692
Special events	937,372		937,372
Direct donor benefit costs of special events	(155,335)		(155,335)
Net investment return	1,217,176	249,088	1,466,264
Other	<u>69,036</u>		<u>69,036</u>
Total revenue	4,166,005	5,174,299	9,340,304
Net assets released from restrictions:			
Program expenditures	4,022,973	(4,022,973)	
Expiration of time restrictions	<u>824,889</u>	<u>(824,889)</u>	
Total	<u>9,013,867</u>	<u>326,437</u>	<u>9,340,304</u>
EXPENSES:			
Program services	5,816,506		5,816,506
Management and general	2,112,897		2,112,897
Fundraising	<u>744,230</u>		<u>744,230</u>
Total expenses	<u>8,673,633</u>		<u>8,673,633</u>
CHANGES IN NET ASSETS	340,234	326,437	666,671
Net assets, beginning of year	<u>11,938,623</u>	<u>2,388,607</u>	<u>14,327,230</u>
Net assets, end of year	<u>\$ 12,278,857</u>	<u>\$ 2,715,044</u>	<u>\$ 14,993,901</u>

*See accompanying notes to financial statements.*

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## Houston Area Women's Center

Statement of Activities for the year ended December 31, 2018

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (Note 11)		\$ 3,297,224	\$ 3,297,224
United Way allocation		624,137	624,137
Other	\$ 1,909,326	886,562	2,795,888
Special events	932,170		932,170
Direct donor benefit costs of special events	(146,397)		(146,397)
Net investment return	(136,048)	(28,220)	(164,268)
Loss on disposal of property	(192,604)		(192,604)
Other	<u>127,283</u>		<u>127,283</u>
Total revenue	2,493,730	4,779,703	7,273,433
Net assets released from restrictions:			
Program expenditures	3,846,777	(3,846,777)	
Expiration of time restrictions	<u>799,571</u>	<u>(799,571)</u>	
Total	<u>7,140,078</u>	<u>133,355</u>	<u>7,273,433</u>
EXPENSES:			
Program services	5,821,255		5,821,255
Management and general	1,753,906		1,753,906
Fundraising	<u>565,828</u>		<u>565,828</u>
Total expenses	<u>8,140,989</u>		<u>8,140,989</u>
CHANGES IN NET ASSETS	(1,000,911)	133,355	(867,556)
Net assets, beginning of year	<u>12,939,534</u>	<u>2,255,252</u>	<u>15,194,786</u>
Net assets, end of year	<u>\$ 11,938,623</u>	<u>\$ 2,388,607</u>	<u>\$ 14,327,230</u>

*See accompanying notes to financial statements.*

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## Houston Area Women's Center

### Statements of Functional Expenses for the years ended December 31, 2019 and 2018

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2019 TOTAL EXPENSES
Salaries and related expenses	\$ 4,040,899	\$ 1,353,387	\$ 368,227	\$ 5,762,513
Direct assistance to individuals	692,127			692,127
Professional fees and contract services	96,669	385,948	225,653	708,270
Depreciation	347,986	67,082	4,193	419,261
Repairs and maintenance	151,070	96,914	10,156	258,140
Supplies	135,642	26,204	21,746	183,592
Utilities	133,804	34,334	3,077	171,215
Insurance	70,270	26,707	743	97,720
Telephone	43,742	13,793	1,422	58,957
Printing and publications	14,293	1,062	38,715	54,070
Travel	36,008	6,738	2,407	45,153
Postage	3,450	2,124	18,365	23,939
Membership	12,162	6,405	2,388	20,955
Other	38,384	92,199	47,138	177,721
Total expenses	<u>\$ 5,816,506</u>	<u>\$ 2,112,897</u>	<u>\$ 744,230</u>	8,673,633
Direct donor benefit costs of special events				<u>155,335</u>
Total				<u>\$ 8,828,968</u>

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2018 TOTAL EXPENSES
Salaries and related expenses	\$ 3,790,041	\$ 1,145,949	\$ 314,592	\$ 5,250,582
Direct assistance to individuals	750,532			750,532
Professional fees and contract services	134,441	306,115	96,335	536,891
Depreciation	417,907	82,003	4,588	504,498
Repairs and maintenance	237,060	145,636	2,130	384,826
Supplies	55,058	14,597	50,911	120,566
Utilities	194,813	21,617	5,585	222,015
Insurance	68,763	17,415	974	87,152
Telephone	52,322	10,458	1,567	64,347
Printing and publications	10,907	1,454	24,352	36,713
Travel	44,795	2,129	443	47,367
Postage	2,798	3,964	9,291	16,053
Membership	10,121	2,569	274	12,964
Other	51,697		54,786	106,483
Total expenses	<u>\$ 5,821,255</u>	<u>\$ 1,753,906</u>	<u>\$ 565,828</u>	8,140,989
Direct donor benefit costs of special events				<u>146,397</u>
Total				<u>\$ 8,287,386</u>

*See accompanying notes to financial statements.*



## Houston Area Women's Center

Statements of Cash Flows for the years ended December 31, 2019 and 2018

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	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 666,671	\$ (867,556)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	419,261	504,498
Loss on disposal of property		192,604
Donated securities	(75,396)	(109,533)
Realized and unrealized (gain) loss on investments	(1,295,530)	331,722
Changes in operating assets and liabilities:		
Contributions receivable	(63,505)	(87,523)
Prepaid expenses and other receivables	(26,341)	(67,382)
Accounts payable	107,058	75,915
Accrued expenses	225,295	(108,818)
Deferred revenue	<u>(60,718)</u>	<u>69,454</u>
Net cash used by operating activities	<u>(103,205)</u>	<u>(66,619)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property	(169,863)	(61,804)
Change in money market mutual fund	4,703	(5,594)
Purchases of investments	(322,824)	(480,950)
Proceeds from sale of investments	<u>544,825</u>	<u>357,221</u>
Net cash provided (used) by investing activities	<u>56,841</u>	<u>(191,127)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on capital lease obligations	<u>(41,665)</u>	<u>(33,893)</u>
NET CHANGE IN CASH	(88,029)	(291,639)
Cash, beginning of year	<u>456,380</u>	<u>748,019</u>
Cash, end of year	<u>\$ 368,351</u>	<u>\$ 456,380</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$2,740	\$4,528

*See accompanying notes to financial statements.*

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## Houston Area Women's Center

Notes to Financial Statements for the years ended December 31, 2019 and 2018

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### NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston Area Women's Center (HAWC) helps individuals affected by domestic and sexual violence in their efforts to move their lives forward. HAWC provides shelter, counseling and advocacy to support them in building lives free from the effects of violence. The organization also seeks social change to end domestic and sexual violence through community awareness and education. All services are confidential. HAWC provides services in the following programs:

Program services include a continuum of support services including shelter, counseling, and 24-hour hotline services to survivors of domestic and sexual violence, their family and friends, and the community at large. All services are provided free of charge and are provided in English and Spanish. All other languages are accommodated, including sign language, through translation services.

*Shelter and Support Services* provides a 120-bed shelter and support services, for up to ninety days, to adult women and women with children who are domestic and sexual violence survivors.

- Shelter services include meeting basic daily needs, such as clothing, transportation, meals, and a safe place to stay.
- Support services include counseling, advocacy, case management, mentoring and parenting education, and a monthly legal clinic.
- The on-site career development program includes career or vocational counseling, educational services, access to ESL and GED tutoring, employment assistance, and life skills classes.
- Services for families include on-site daycare, an on-site Early Childhood Center for infants and children (ages 6 weeks to 5 years), on-site HISD school (kindergarten through 5<sup>th</sup> grade), and enrichment services, including on-site after school and summer programs.

*Non-Residential Services* provide services at the Education and Counseling building for adult and child survivors of domestic and sexual violence, and their non-offending family members. Non-Residential Services consist of Hotline Services, Counseling and Advocacy Services, Housing Services, Children's Court Services and Outreach Counseling programs.

- Hotline Services provide crisis intervention, emotional support, information, and referrals to survivors of domestic and sexual violence through two 24-hour hotlines. The hotlines also oversee the hospital accompaniment program that dispatches an advocate to hospital emergency rooms to provide crisis intervention and advocacy.
- Counseling and Advocacy Services provide individual and group counseling for survivors of domestic and sexual violence and their families and friends. Counselors advocate for clients who are trying to navigate social services and help complete Crime Victims Compensation applications. Counselors also provide expert testimony in both civil and criminal cases.
- Housing Services provide housing options and client advocacy for both shelter and non-residential clients. Housing advocacy assesses clients' housing needs and provides them with appropriate information and referrals, self-sufficiency planning workshops, tenant education sessions, access to transitional housing, and short-term and long-term rental/utility assistance. Client advocacy provides case management for housing clients and informs clients on legal rights and options, protective orders, and other legal services. A legal clinic is conducted for non-residential clients on a quarterly basis.
- Children's Court Services provide education, support, and witness preparation to children who are witnesses and/or victims of a violent crime and their non-offending families. Court advocates also provide court accompaniment to the children and their families once they are involved in the criminal court system.
- Outreach Counseling provides community-based counseling services for African-American, Hispanic, and disabled survivors of domestic and/or sexual violence. Outreach efforts include sites at health clinics and social service agencies.

*Violence Prevention and Community Education* provides education to community members about the dynamics of domestic and sexual violence, including the root causes, in the efforts to prevent these forms of violence.

- *Educational Programming* – The educational programming’s goal is to bring awareness to the issue of domestic and sexual violence and the dynamics of these forms of violence are focused around three distinct target groups: middle and high school youth, low-income African American adults, and Hispanic adults with low English proficiency.
- *Professional Training* – The professional training programming’s goal is to teach skill-based training to first responders within the community. These groups include medical/nursing students, child protective services, school administration, within the Houston and Alief Independent School Districts, university students/faculty/staff, law enforcement, legal professional, special advocate groups, and community organizations that work primarily with low-income African American and Hispanic youth populations.
- *Primary Prevention* – Primary prevention seeks to reduce the overall likelihood that anyone will become a victim or a perpetrator by creating conditions that make violence less likely to occur. HAWC’s comprehensive approach utilizes educational seminars, training programs for professionals, and community mobilization to prevent domestic, sexual, and teen dating violence.
- *Communications* – The Communications department provides information to the public on domestic and sexual violence issues and services via website, social media, public service announcements, brochures targeting special populations, interviews in the media, and collateral materials.

Federal income tax status – HAWC is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Cash – Bank deposits exceed the federally insured limit per depositor per institution.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted, if material, to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises were received. Amortization of discounts is included in contribution revenue.

An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and a donor-by-donor analysis of balances.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property is reported at cost if purchased and at fair value at the date of gift if donated. Property purchases over \$1,000 are capitalized. Depreciation is computed on a straight-line basis over estimated useful lives of 4 to 30 years.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service unless the donor also has placed a time restriction on the use of the long-lived asset, in which case the release occurs over the term of the time restriction. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from a government agency or donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional grants and contributions are subject to one or more barriers that must be overcome before HAWC is entitled to receive or retain funding. Conditional grants and contributions are recognized in the same manner when the conditions have been substantially met. Funding received before conditions are met is reported as deferred revenue.

Contributed materials, use of facilities and services are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

In-kind contributions of food and supplies with a fair market value of approximately \$123,000 were recognized as contribution revenue and program services expense in fiscal year 2019.

A substantial number of volunteers have contributed significant amounts of time in connection with programs for which no amount has been recorded in the financial statements because the services do not meet the criteria for recognition under generally accepted accounting principles. During 2019 and 2018, HAWC's volunteers contributed 10,348 hours and 11,957 hours, respectively, in connection with programs, which is not recognized in the financial statements.

Special events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events revenue is recognized when the event occurs. Direct donor benefit costs represent the cost of goods and services provided to attendees of the special events. Amounts received in advance are reported as deferred revenue.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and volunteer time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation, utilities, insurance, telephone, repairs and maintenance are allocated based on usage of related facilities.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

## **NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE**

Effective January 1, 2019, HAWC adopted the amendments of Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies the distinction between contributions and exchange transactions and between conditional and unconditional contributions. These amendments have been applied on a retrospective basis effective January 1, 2018. Adoption of this ASU resulted in reclassification of previously reported activities to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

### NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31 comprise the following:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash	\$ 368,351	\$ 456,380
Contributions receivable	1,832,784	1,698,883
Investments	<u>7,565,523</u>	<u>6,421,301</u>
Total financial assets	9,766,658	8,576,564
Less financial assets not available for general expenditure:		
Board-designated investments less budgeted \$200,000 appropriation	(6,025,590)	(5,130,456)
Endowment investments	<u>(1,339,933)</u>	<u>(1,090,845)</u>
Total financial assets available for general expenditure	<u>\$ 2,401,135</u>	<u>\$ 2,355,263</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, HAWC considers all expenditures related to providing shelter, counseling and advocacy services to be general expenditures. HAWC regularly monitors liquidity required to meet its operating needs and other contractual commitments, while striving to maximize the investment of available funds. HAWC's Board of Directors has designated a portion of its resources for board-designated investments. These funds are primarily invested in mutual funds for long-term appreciation but remain available to be spent at the Board of Directors' discretion. Subsequent to year end, HAWC entered into a line of credit agreement which can be drawn upon to meet liquidity needs (Note 13).

### NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are comprised of the following:

	<u>2019</u>	<u>2018</u>
Government grants	\$ 545,717	\$ 622,784
United Way allocation	630,000	624,137
Other	601,300	451,962
Allowance for uncollectible contributions	<u>(14,629)</u>	<u>          </u>
Contributions receivable, net	<u>\$ 1,762,388</u>	<u>\$ 1,698,883</u>

Contributions receivable at December 31, 2019 are due within one year.

At December 31, 2019, HAWC has approximately \$4,200,000 of conditional contributions from various government agencies, which have not been recognized in the accompanying financial statements because the conditions have not been met. HAWC is party to other government awards for which the award amount is not specified by the grantor. HAWC will recognize these grants as qualifying grant expenditures are incurred and/or performance requirements are met.

### NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received

to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2019 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Large cap equity mutual fund	\$ 4,944,218			\$ 4,944,218
Intermediate-term bond mutual fund	2,546,745			2,546,745
Common stock	73,669			73,669
Money market mutual fund	<u>891</u>			<u>891</u>
Total assets measured at fair value	<u>\$ 7,565,523</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,565,523</u>

Assets measured at fair value at December 31, 2018 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Large cap equity mutual fund	\$ 3,947,474			\$ 3,947,474
Intermediate-term bond mutual fund	2,370,057			2,370,057
Common stock	98,176			98,176
Money market mutual fund	<u>5,594</u>			<u>5,594</u>
Total assets measured at fair value	<u>\$ 6,421,301</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,421,301</u>

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

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

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while HAWC believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

## NOTE 6 – PROPERTY

Property consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,905,383	\$ 1,905,383
Building and improvements	9,172,312	9,147,895
Furniture and equipment	<u>2,480,668</u>	<u>2,352,829</u>
Total property, at cost	13,558,363	13,406,107
Accumulated depreciation	<u>(7,640,779)</u>	<u>(7,239,125)</u>
Property, net	<u>\$ 5,917,584</u>	<u>\$ 6,166,982</u>

## NOTE 7 – CAPITAL LEASE OBLIGATIONS

HAWC is the lessee of office equipment under capital leases expiring in December 2020. The assets are amortized over their estimated productive life. Amortization expenses totaling \$39,805 and \$34,964 of the assets under these capital leases is included in depreciation expense for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019, the office equipment cost and accumulated amortization totaled \$153,751 and \$124,884, respectively. As of December 31, 2018, the office equipment cost and accumulated amortization totaled \$153,751 and \$85,079, respectively.

A future minimum lease payment of \$34,174 is due in 2020.

## NOTE 8 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are designated as follows:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 135,683	\$ 441,185
Property, net	5,917,584	6,166,982
Board-designated reserves	<u>6,225,590</u>	<u>5,330,456</u>
Total net assets without donor restrictions	<u>\$ 12,278,857</u>	<u>\$ 11,938,623</u>

HAWC has a policy of appropriating for distribution each year an amount not to exceed 3% of the board-designated reserve fund's average fair value over the prior twelve quarters. The Executive Committee can approve any or all of the board-designated reserves to be used for any specific purpose or project it deems appropriate.

## NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Direct services	\$ 471,675	\$ 397,795
Other	<u>185,000</u>	<u>75,078</u>
Total subject to expenditure for specified purpose	<u>656,675</u>	<u>472,873</u>
Subject to the passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	<u>718,436</u>	<u>824,889</u>
Endowments subject to spending policy and appropriation:		
Building maintenance	1,096,893	892,986
Direct services	231,010	188,066
Transportation	<u>12,030</u>	<u>9,793</u>
Total endowments	<u>1,339,933</u>	<u>1,090,845</u>
Total net assets with donor restrictions	<u>\$ 2,715,044</u>	<u>\$ 2,388,607</u>

## NOTE 10 – ENDOWMENT FUNDS

Donor-restricted endowment funds are subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). The Board of Directors has interpreted TUPMIFA as allowing HAWC to appropriate for expenditure or accumulate as much of an endowment fund as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund was established, subject to explicit donor stipulations.

Donor-restricted endowment net assets are classified as *net assets with donor restrictions* until appropriated in accordance with spending policies and used for the stipulated purpose, if any. HAWC classifies contributions to an endowment plus any donor-stipulated accumulations as *net assets with donor restrictions required to be maintained in perpetuity*. The unappropriated investment earnings on donor-restricted endowments are classified as *net assets with donor restrictions accumulated net investment return*. The Board of Directors has interpreted TUPMIFA as not precluding HAWC from spending below the amount required to be maintained in perpetuity subject to prudent standards. An endowment fund is *underwater* if the fair value of the fund's investments falls below the amount required to be maintained in perpetuity because of declines in the fair value of investments and/or continued appropriation and spending in accordance prudent measures.

### Spending Policy

HAWC has a policy of appropriating for distribution each year an amount not to exceed 3% of the endowment fund's average fair value over the prior twelve quarters without specific Board of Directors' approval. In establishing this policy, HAWC considered the long-term expected return on the endowments.

### Strategies Employed for Achieving Objectives

Endowment funds are managed internally with passive investments held at an independent financial firm. The management of these investments is directed, outlined, and guided by an investment policy approved by the Board of Directors with oversight from the Finance Committee of the Board of Directors. HAWC has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments 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 in a manner that is intended to produce annualized returns of at least 3% in excess of the Consumer Price Index over a five-year period. To satisfy its long-term rate-of-return objectives, HAWC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HAWC targets an asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Changes in endowment net assets are as follows:

	<u>WITH DONOR RESTRICTIONS</u>		
	<u>ACCUMULATED</u>	<u>REQUIRED TO BE</u>	
	<u>NET INVESTMENT</u>	<u>MAINTAINED</u>	
	<u>RETURN</u>	<u>IN PERPETUITY</u>	<u>TOTAL</u>
Endowment net assets, December 31, 2017	\$ 449,172	\$ 669,893	\$ 1,119,065
Net investment return	<u>(28,220)</u>	<u>                    </u>	<u>(28,220)</u>
Endowment net assets, December 31, 2018	420,952	669,893	1,090,845
Net investment return	<u>249,088</u>	<u>                    </u>	<u>249,088</u>
Endowment net assets, December 31, 2019	<u>\$ 670,040</u>	<u>\$ 669,893</u>	<u>\$ 1,339,933</u>



## NOTE 11 – GOVERNMENT GRANTS

HAWC is a party to agreements with government agencies. Should these agreements not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Sources of significant government grants recognized include the following:

	<u>2019</u>	<u>2018</u>
Federal government grants:		
U. S. Department of Justice	\$ 1,163,160	\$ 839,783
U. S. Department of Housing and Urban Development	744,023	908,328
U. S. Department of Health and Human Services	680,921	679,036
U. S. Department of Agriculture	69,420	66,942
U. S. Department of Homeland Security	16,408	9,296
U. S. Department of Transportation	<u>                    </u>	<u>111,818</u>
Total federal government grants	<u>2,673,932</u>	<u>2,615,203</u>
State and local government grants:		
Texas Health and Human Services Commission	347,930	324,022
Office of the Attorney General – State of Texas	299,014	285,199
Harris County grants	<u>57,399</u>	<u>72,800</u>
Total government grants	<u>\$ 3,378,275</u>	<u>\$ 3,297,224</u>

HAWC receives grants from federal and state funding sources that require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by HAWC with the terms of the contracts. Management believes such disallowances, if any, would not be material to HAWC's financial position or changes in net assets.

## NOTE 12 – EMPLOYEE BENEFIT PLAN

HAWC participates in a §401(k) plan administered by Voya Financial. Each employee is permitted to contribute up to 19% of before-tax compensation. HAWC annually matches 125% of employee contributions up to 4% of compensation. Employees are fully vested in HAWC's contributions after five years of continuous service. HAWC contributed approximately \$145,000 and \$122,000 to the plan in 2019 and 2018, respectively.

## NOTE 13 – SUBSEQUENT EVENTS

*COVID-19* – On March 11, 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and on March 13, 2020, a national emergency was declared in the United States. The extent of the impact of COVID-19 on HAWC's operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on the local community, donors, employees, and vendors, all of which are uncertain and cannot be predicted. Therefore, while HAWC expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

*Paycheck Protection Program (PPP) Loan* – In April 2020, HAWC received a \$919,800 loan under the PPP, a part of the Coronavirus Aid, Relief and Economic Security (CARES) Act enacted in March 2020. The loan, maturing in two years, bears interest at 1%. The principal and interest on the loan may be wholly or partially forgiven if the proceeds of the loan are used for allowable expenses, primarily certain payroll and other costs not funded by other government grants.

*Secured Line of Credit* – In April 2020, HAWC obtained a line of credit (LOC), secured by its investment fund, through a bank affiliated with the custodian of the fund. Under authority of the Board of Directors, HAWC may borrow from the LOC for liquidity needs subject to certain prior approvals by the Executive Committee. Amounts borrowed under the LOC bear interest at the greater of 1% or the prime rate. The LOC has no maturity date, but amounts outstanding must be repaid if the value of the investment fund falls below certain thresholds or the investment fund is transferred to a different custodian. HAWC does not intend to use the LOC for long-term financing purposes.

Subsequent to year end, the City of Houston Housing and Community Development Department awarded HAWC a matching contribution of \$14.85 million for the Temporary Supportive building project. This project will allow HAWC to triple its current shelter capacity and expand its services. The awarded funds must be matched with other funding sources prior to completion of the project. HAWC has begun the planning to launch a capital campaign to ensure the necessary funds are secured in order to receive the full award from the City of Houston. HAWC expects to break ground on this project by year end 2022.

Management has evaluated subsequent events through July 28, 2020, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

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