

**Houston Area Women's Center**

Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2020 and 2019

# 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, 2020 and 2019 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, 2020 and 2019 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 August 10, 2021 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*

August 10, 2021

## Houston Area Women's Center

Statements of Financial Position as of December 31, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 503,347	\$ 368,351
Contributions receivable, net: <i>(Note 3)</i>		
Government grants receivable	2,120,711	545,717
United Way allocation	503,213	630,000
Contributions receivable, other	601,708	655,041
Prepaid expenses and other assets	112,639	80,891
Investments <i>(Note 4)</i>	8,165,363	7,565,523
Property, net <i>(Note 5)</i>	<u>5,651,169</u>	<u>5,917,584</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 17,658,150</u></b>	<b><u>\$ 15,763,107</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 428,009	\$ 254,243
Accrued expenses	883,398	476,817
Refundable advance – Paycheck Protection Program <i>(Note 2)</i>	919,800	
Refundable advance – other government grants	20,788	8,736
Capital lease obligations		29,410
Line of credit <i>(Note 6)</i>	<u>1,381,719</u>	<u>                    </u>
Total liabilities	<u>3,633,714</u>	<u>769,206</u>
Contingencies <i>(Note 10)</i>		
Net assets:		
Without donor restrictions <i>(Note 7)</i>	11,066,997	12,278,857
With donor restrictions <i>(Notes 8 and 9)</i>	<u>2,957,439</u>	<u>2,715,044</u>
Total net assets	<u>14,024,436</u>	<u>14,993,901</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 17,658,150</u></b>	<b><u>\$ 15,763,107</u></b>

*See accompanying notes to financial statements.*

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## Houston Area Women's Center

Statement of Activities for the year ended December 31, 2020

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (Note 10)		\$ 6,040,243	\$ 6,040,243
United Way allocation		503,213	503,213
Other	\$ 2,827,786	897,689	3,725,475
Special events	420,238		420,238
Direct donor benefit costs of special events	(5,690)		(5,690)
Net investment return	821,937	176,906	998,843
Other	<u>73,751</u>		<u>73,751</u>
Total revenue	4,138,022	7,618,051	11,756,073
Net assets released from restrictions:			
Program expenditures	6,657,220	(6,657,220)	
Expiration of time restrictions	<u>718,436</u>	<u>(718,436)</u>	
Total	<u>11,513,678</u>	<u>242,395</u>	<u>11,756,073</u>
EXPENSES:			
Program services	9,347,527		9,347,527
Management and general	2,560,340		2,560,340
Fundraising	<u>817,671</u>		<u>817,671</u>
Total expenses	<u>12,725,538</u>		<u>12,725,538</u>
CHANGES IN NET ASSETS	(1,211,860)	242,395	(969,465)
Net assets, beginning of year	<u>12,278,857</u>	<u>2,715,044</u>	<u>14,993,901</u>
Net assets, end of year	<u>\$ 11,066,997</u>	<u>\$ 2,957,439</u>	<u>\$ 14,024,436</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

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (Note 10)		\$ 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.*

## Houston Area Women's Center

### Statements of Functional Expenses for the years ended December 31, 2020 and 2019

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2020 TOTAL EXPENSES
Salaries and related expenses	\$ 5,340,779	\$ 1,337,177	\$ 427,956	\$ 7,105,912
Direct assistance to individuals	2,320,529			2,320,529
Professional fees and contract services	330,649	488,099	340,713	1,159,461
Repairs and maintenance	347,370	151,583	6,215	505,168
Depreciation	346,549	66,804	4,174	417,527
Technology	190,881	169,260	5,726	365,867
Telephone	182,387	74,588	1,673	258,648
Supplies	71,507	106,172	15,135	192,814
Utilities	110,217	29,110	2,836	142,163
Insurance	73,027	23,060	1,372	97,459
Postage	171	4,459	7,657	12,287
Travel	9,316	2,539	333	12,188
Printing and publications	6,080	2,138	1,365	9,583
Interest		6,719		6,719
Membership	1,147	5,079	220	6,446
Other	16,918	93,553	2,296	112,767
Total expenses	<u>\$ 9,347,527</u>	<u>\$ 2,560,340</u>	<u>\$ 817,671</u>	12,725,538
Direct donor benefit costs of special events				<u>5,690</u>
Total				<u>\$ 12,731,228</u>
				2019
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	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
Repairs and maintenance	150,240	72,041	5,739	228,020
Depreciation	347,986	67,082	4,193	419,261
Technology	830	24,873	4,417	30,120
Telephone	43,742	13,793	1,422	58,957
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
Postage	3,450	2,124	18,365	23,939
Travel	36,008	6,738	2,407	45,153
Printing and publications	14,293	1,062	38,715	54,070
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>

*See accompanying notes to financial statements.*



## Houston Area Women's Center

Statements of Cash Flows for the years ended December 31, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ (969,465)	\$ 666,671
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	417,527	419,261
Donated property	(15,000)	
Donated securities		(75,396)
Realized and unrealized gain on investments	(834,813)	(1,295,530)
Changes in operating assets and liabilities:		
Contributions receivable	(1,394,874)	(63,505)
Prepaid expenses and other assets	(31,748)	(26,341)
Accounts payable	173,766	107,058
Accrued expenses	406,581	225,295
Refundable advance – Paycheck Protection Program	919,800	
Refundable advance – other government grants	<u>12,052</u>	<u>(60,718)</u>
Net cash used by operating activities	<u>(1,316,174)</u>	<u>(103,205)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property	(136,112)	(169,863)
Change in money market mutual fund	(79,070)	4,703
Purchases of investments	(212,776)	(322,824)
Proceeds from sale of investments	<u>526,819</u>	<u>544,825</u>
Net cash provided by investing activities	<u>98,861</u>	<u>56,841</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	1,381,719	
Payments on capital lease obligations	<u>(29,410)</u>	<u>(41,665)</u>
Net cash provided (used) by financing activities	<u>1,352,309</u>	<u>(41,665)</u>
<b>NET CHANGE IN CASH</b>	<b>134,996</b>	<b>(88,029)</b>
Cash, beginning of year	<u>368,351</u>	<u>456,380</u>
Cash, end of year	<u>\$ 503,347</u>	<u>\$ 368,351</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$6,719	\$2,740

*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, 2020 and 2019

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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 are 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 met. Funding received before conditions are met is reported as a refundable advance.

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 \$292,000 and \$123,000 were recognized as contribution revenue and program services expense in fiscal years 2020 and 2019, respectively.

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 2020 and 2019, HAWC's volunteers contributed 2,825 hours and 10,348 hours, respectively, in connection with programs, which is not recognized in the financial statements. The decrease in volunteer hours is related to COVID-19 health restrictions.

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 for future events represent conditional contributions and 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.

New standards – Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, will require contributed nonfinancial assets to be presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and will require disclosure about the measurement and use of types of contributed nonfinancial assets. The ASU will be effective for years ending after June 15, 2021, and requires retrospective application. HAWC will adopt this ASU in fiscal year 2021.

## NOTE 2 – 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>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 503,347	\$ 368,351
Contributions receivable, net	3,225,632	1,830,758
Investments	<u>8,165,363</u>	<u>7,565,523</u>
Total financial assets	11,894,342	9,764,632
Less financial assets not available for general expenditure:		
Board-designated investments less budgeted \$200,000 appropriation	(6,288,524)	(6,025,590)
Endowment investments	<u>(1,516,839)</u>	<u>(1,339,933)</u>
Total financial assets available for general expenditure	<u>\$ 4,088,979</u>	<u>\$ 2,399,109</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. HAWC also has a line of credit which can be drawn upon to meet liquidity needs.

Due to the COVID-19 pandemic, HAWC held its annual luncheon event through a virtual platform. The extent of the impact of COVID-19 on HAWC's future 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. While HAWC expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

In April 2020, HAWC received an unsecured bank loan of \$919,800 funded through the Small Business Administration's (SBA) Paycheck Protection Program (PPP). The PPP loan principal and interest may be forgiven, in whole or in part, if HAWC meets its eligibility requirements and uses the loan to fund qualified payroll and other eligible costs. The loan is considered a conditional contribution and will be recognized as contribution revenue when forgiven. Any amounts not forgiven bear interest at 1.0% and may be repaid over 2 years. HAWC applied for forgiveness of the loan in July 2021 and received forgiveness in August 2021, and as such will recognize the revenue in fiscal year 2021.

## NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are comprised of the following:

	<u>2020</u>	<u>2019</u>
Government grants	\$ 2,120,711	\$ 545,717
United Way allocation	503,213	630,000
Other	616,337	669,670
Allowance for uncollectible contributions	<u>(14,629)</u>	<u>(14,629)</u>
Contributions receivable, net	<u>\$ 3,225,632</u>	<u>\$ 1,830,758</u>

Contributions receivable at December 31, 2020 are due within one year.

At December 31, 2020, HAWC has approximately \$6,200,000 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 will recognize these grants as qualifying grant expenditures are incurred and/or performance requirements are met. HAWC is party to other government awards for which the award amount is not specified by the grantor.

#### NOTE 4 – 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, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Large cap equity mutual fund	\$ 5,418,498			\$ 5,418,498
Intermediate-term bond mutual fund	2,663,287			2,663,287
Money market mutual fund	79,961			79,961
Common stock	<u>3,617</u>			<u>3,617</u>
Total assets measured at fair value	<u>\$ 8,165,363</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,165,363</u>

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
Money market mutual fund	891			891
Common stock	<u>73,669</u>			<u>73,669</u>
Total assets measured at fair value	<u>\$ 7,565,523</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,565,523</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 5 – PROPERTY**

Property consists of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 1,905,383	\$ 1,905,383
Building and improvements	9,195,211	9,172,312
Furniture and equipment	2,505,263	2,480,668
Construction in progress	<u>103,618</u>	<u>          </u>
Total property, at cost	13,709,475	13,558,363
Accumulated depreciation	<u>(8,058,306)</u>	<u>(7,640,779)</u>
Property, net	<u>\$ 5,651,169</u>	<u>\$ 5,917,584</u>

HAWC executed a contract in July 2021 to sell its Counseling and Education land and building on Waugh Drive (Note 13).

**NOTE 6 – 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 (2.75% at December 31, 2020). 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. The balance of the LOC was \$1,381,719 at December 31, 2020.

**NOTE 7 – NET ASSETS WITHOUT DONOR RESTRICTIONS**

Net assets without donor restrictions are designated as follows:

	<u>2020</u>	<u>2019</u>
Undesignated	\$ (872,696)	\$ 135,683
Property, net	5,651,169	5,917,584
Board-designated reserves	<u>6,288,524</u>	<u>6,225,590</u>
Total net assets without donor restrictions	<u>\$ 11,066,997</u>	<u>\$ 12,278,857</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. In fiscal year 2020, the Board of Directors approved an annual appropriation and an additional appropriation for certain strategic initiatives from the board-designated reserves of \$759,000. In fiscal year 2019, the Board of Directors approved an annual appropriation and an additional appropriation for certain strategic initiatives from the board-designated reserves of \$400,000.

## NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Direct services	\$ 610,387	\$ 471,675
Other	<u>227,000</u>	<u>185,000</u>
Total subject to expenditure for specified purpose	<u>837,387</u>	<u>656,675</u>
Subject to the passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	<u>603,213</u>	<u>718,436</u>
Endowments subject to spending policy and appropriation:		
Building maintenance	1,241,712	1,096,893
Direct services	261,509	231,010
Transportation	<u>13,618</u>	<u>12,030</u>
Total endowments	<u>1,516,839</u>	<u>1,339,933</u>
Total net assets with donor restrictions	<u>\$ 2,957,439</u>	<u>\$ 2,715,044</u>

## NOTE 9 – 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.

TUPMIFA does not preclude the Board of Directors from spending below the original value of donor-restricted contributions in accordance with the prescribed standards of prudence. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor specified as a fund of perpetual duration. Deficiencies of this nature are reported in *net assets with donor restrictions* as an aggregate deficiency of the fair value. No such deficiencies existed at December 31, 2020 or 2019.

### 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>TOTAL</u>
	<u>ACCUMULATED NET INVESTMENT RETURN</u>	<u>REQUIRED TO BE MAINTAINED IN PERPETUITY</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	670,040	669,893	1,339,933
Net investment return	<u>176,906</u>	<u>          </u>	<u>176,906</u>
Endowment net assets, December 31, 2020	<u>\$ 846,946</u>	<u>\$ 669,893</u>	<u>\$ 1,516,839</u>

#### NOTE 10 – 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>2020</u>	<u>2019</u>
Federal government grants:		
U. S. Department of Housing and Urban Development	\$ 1,795,070	\$ 744,023
U. S. Department of Justice	1,551,723	1,163,160
U. S. Department of Health and Human Services	805,951	680,921
U. S. Department of the Treasury	439,198	
U. S. Department of Agriculture	69,270	69,420
U. S. Department of Homeland Security	9,559	16,408
U. S. Small Business Administration	<u>10,000</u>	<u>          </u>
Total federal government grants	<u>4,680,771</u>	<u>2,673,932</u>
State and local government grants:		
Texas Health and Human Services Commission	566,664	347,930
Office of the Attorney General – State of Texas	542,470	299,014
Harris County grants	<u>250,338</u>	<u>57,399</u>
Total state and local government grants	<u>1,359,472</u>	<u>704,343</u>
Total government grants	<u>\$ 6,040,243</u>	<u>\$ 3,378,275</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 11 – 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 \$171,000 and \$145,000 to the plan in 2020 and 2019, respectively.

#### **NOTE 12 – TEMPORARY SUPPORTIVE HOUSING PROJECT AND COMMITMENTS**

In 2020, the City of Houston Housing and Community Development Department (HCDD) granted a letter of intent to recommend HAWC's temporary supportive housing project to receive construction and permanent financing. The loan is estimated to be \$14,850,000, with a construction loan term of 2 years and a permanent loan term of 40 years commencing upon the completion of construction. The loan will be forgiven at maturity if HAWC is in compliance with the terms over the life of the agreement. HAWC plans to fund the remaining balance of the project cost with contributions and proceeds from the sale of its current land and building and improvements. The new construction of the 135-unit supportive affordable housing development project will allow HAWC to triple its current shelter capacity and expand its services. HAWC will follow the affordability restrictions and construction standards required by HCDD. HAWC expects to break ground on this project in August 2022.

In September 2020, HAWC entered into an agreement with a construction company for project management services in connection with the construction and development of the temporary supportive housing project, with a commitment of 2% of the total construction cost.

#### **NOTE 13 – SUBSEQUENT EVENTS**

In January 2021, HAWC entered into a development services agreement with New Hope Housing, Inc. (NHHI) with a commitment of \$500,000 for the provision of development and consulting services related to the temporary supportive housing project, assisting the project manager with certain development activities, and working with the lender selected by HAWC.

In April 2021, HAWC entered into an agreement with an architect to provide design and engineering services in connection with the development of a temporary supportive housing project, an architectural program for HAWC's operations and the related master plan. The commitment is \$1,450,000 for the architect to design within the maximum project cost, which is estimated to be between \$22 million to \$24 million.

In April 2021, HAWC accepted a bid from a general contractor for the construction of temporary supportive housing for a fixed percentage fee of the cost of work.

In July 2021, HAWC executed a contract to sell the current land and building and improvements at a purchase price of \$13,500,000. The buyer deposited \$250,000 in escrow and an additional \$250,000 will be deposited into escrow if the buyer fails to terminate the contract prior to the end of the inspection period, with the remaining balance due upon closing.

Subsequent to December 31, 2020, HAWC drew down approximately \$2.5 million on its line of credit.

Management has evaluated subsequent events through August 10, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified other than those described above and the PPP loan forgiveness (Note 2), that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.