

Houston Area Women's Center

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2021 and 2020

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 Audit of the Financial Statements

Opinion

We have audited the financial statements of Houston Area Women's Center, which comprise the statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Houston Area Women's Center as of December 31, 2021 and 2020, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Houston Area Women's Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Houston Area Women's Center's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

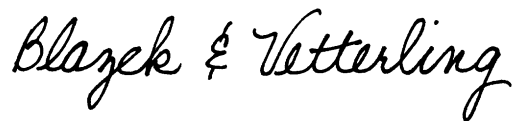
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Houston Area Women's Center'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 Houston Area Women's Center's ability to continue as a going concern for a reasonable period of time.

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

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2022 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.



June 28, 2022

Houston Area Women's Center

Statements of Financial Position as of December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 650,292	\$ 503,347
Contributions receivable, net: <i>(Note 3)</i>		
Operating:		
Government grants receivable	1,654,966	2,120,711
United Way allocation	655,045	503,213
Contributions receivable, other	501,327	601,708
Contributions receivable for capital project	916,799	
Prepaid expenses and other assets	49,599	112,639
Investments <i>(Note 4)</i>	11,850,653	8,165,363
Property, net <i>(Note 5)</i>	<u>6,545,495</u>	<u>5,651,169</u>
TOTAL ASSETS	<u>\$ 22,824,176</u>	<u>\$ 17,658,150</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 213,669	\$ 428,009
Construction payable	212,521	
Accrued expenses	282,182	229,393
Accrued payroll and benefits	781,100	654,005
Refundable advance – Paycheck Protection Program <i>(Note 2)</i>		919,800
Refundable advance – other government grants	81,547	20,788
Refundable advance – special events	25,843	
Escrow deposit <i>(Note 5)</i>	500,000	
Capital lease obligations <i>(Note 6)</i>	35,842	
Line of credit <i>(Note 7)</i>	<u>2,357,398</u>	<u>1,381,719</u>
Total liabilities	<u>4,490,102</u>	<u>3,633,714</u>
Commitments and contingencies <i>(Notes 11 and 14)</i>		
Net assets:		
Without donor restrictions <i>(Note 8)</i>	11,095,634	11,066,997
With donor restrictions <i>(Notes 9 and 10)</i>	<u>7,238,440</u>	<u>2,957,439</u>
Total net assets	<u>18,334,074</u>	<u>14,024,436</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,824,176</u>	<u>\$ 17,658,150</u>

See accompanying notes to financial statements.

Houston Area Women's Center

Statement of Activities for the year ended December 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (Note 11)		\$ 7,432,628	\$ 7,432,628
United Way allocation		655,045	655,045
In-kind (Note 12)	\$ 364,594		364,594
Other	2,174,305	5,932,926	8,107,231
Special events	173,907		173,907
Net investment return	1,185,041	270,482	1,455,523
Loss on disposal of property	(40,449)		(40,449)
Other	<u>79,672</u>		<u>79,672</u>
Total revenue	<u>3,937,070</u>	<u>14,291,081</u>	<u>18,228,151</u>
Net assets released from restrictions:			
Program expenditures	9,002,974	(9,002,974)	
Capital project	403,893	(403,893)	
Expiration of time restrictions	<u>603,213</u>	<u>(603,213)</u>	
Total	<u>13,947,150</u>	<u>4,281,001</u>	<u>18,228,151</u>
EXPENSES:			
Program services	10,023,516		10,023,516
Management and general	3,018,870		3,018,870
Fundraising	<u>876,127</u>		<u>876,127</u>
Total expenses	<u>13,918,513</u>		<u>13,918,513</u>
CHANGES IN NET ASSETS	28,637	4,281,001	4,309,638
Net assets, beginning of year	<u>11,066,997</u>	<u>2,957,439</u>	<u>14,024,436</u>
Net assets, end of year	<u>\$ 11,095,634</u>	<u>\$ 7,238,440</u>	<u>\$ 18,334,074</u>

See accompanying notes to financial statements.

Houston Area Women's Center

Statement of Activities for the year ended December 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (Note 11)		\$ 6,040,243	\$ 6,040,243
United Way allocation		503,213	503,213
In-kind (Note 12)	\$ 292,128		292,128
Other	2,535,658	897,689	3,433,347
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.

Houston Area Women's Center

Statements of Functional Expenses for the years ended December 31, 2021 and 2020

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2021 TOTAL EXPENSES
Salaries and related expenses	\$ 6,320,362	\$ 1,357,900	\$ 423,119	\$ 8,101,381
Direct assistance to individuals	2,329,192			2,329,192
Professional fees and contract services	346,044	582,201	103,310	1,031,555
Depreciation	331,171	63,840	3,990	399,001
Repairs and maintenance	173,199	122,207		295,406
Technology	115,744	144,162	19,027	278,933
Bad debt		173,484		173,484
Telephone	76,225	91,916	240	168,381
Utilities	86,378	65,408		151,786
Supplies	127,722	5,393	5,553	138,668
Insurance	71,936	44,084		116,020
Interest		60,310		60,310
Travel	21,197	13,349	70	34,616
Postage	11	4,199	3,937	8,147
Membership	3,369	2,115	355	5,839
Printing and publications	4,741	196	806	5,743
Other	16,225	107,114	3,286	126,625
Expenses before capital campaign costs	10,023,516	2,837,878	563,693	13,425,087
Capital campaign costs:				
Salaries and relates expenses		91,082	172,736	263,818
Professional fees and contract services		89,910	139,698	229,608
Total expenses	<u>\$ 10,023,516</u>	<u>\$ 3,018,870</u>	<u>\$ 876,127</u>	<u>\$ 13,918,513</u>

	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
Depreciation	346,549	66,804	4,174	417,527
Repairs and maintenance	347,370	151,583	6,215	505,168
Technology	190,881	169,260	5,726	365,867
Telephone	182,387	74,588	1,673	258,648
Utilities	110,217	29,110	2,836	142,163
Supplies	71,507	106,172	15,135	192,814
Insurance	73,027	23,060	1,372	97,459
Interest		6,719		6,719
Travel	9,316	2,539	333	12,188
Postage	171	4,459	7,657	12,287
Membership	1,147	5,079	220	6,446
Printing and publications	6,080	2,138	1,365	9,583
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>

See accompanying notes to financial statements.

Houston Area Women's Center

Statements of Cash Flows for the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 4,309,638	\$ (969,465)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	399,001	417,527
Loss on disposal of property	40,449	
Donated property		(15,000)
Donated securities for capital project	(1,395,014)	
Realized and unrealized gain on investments	(1,352,235)	(834,813)
Contributions restricted for capital project	(4,963,157)	
Changes in operating assets and liabilities:		
Operating contributions receivable	414,294	(1,394,874)
Prepaid expenses and other assets	63,040	(31,748)
Accounts payable	(214,340)	173,766
Accrued expenses and accrued payroll and benefits	179,884	406,581
Refundable advance – Paycheck Protection Program	(919,800)	919,800
Refundable advance – other government grants	60,759	12,052
Refundable advance – special events	25,843	
Escrow deposit	<u>500,000</u>	
Net cash used by operating activities	<u>(2,851,638)</u>	<u>(1,316,174)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(1,053,343)	(136,112)
Change in cash held in investments	(1,440,796)	(79,070)
Purchases of investments	(3,218,840)	(212,776)
Proceeds from sale of investments	<u>3,721,595</u>	<u>526,819</u>
Net cash provided (used) by investing activities	<u>(1,991,384)</u>	<u>98,861</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	1,165,070	1,381,719
Payments on line of credit	(189,391)	
Payments on capital lease obligations	(32,070)	(29,410)
Proceeds from contributions restricted for capital project	<u>4,046,358</u>	
Net cash provided by financing activities	<u>4,989,967</u>	<u>1,352,309</u>
NET CHANGE IN CASH	146,945	134,996
Cash, beginning of year	<u>503,347</u>	<u>368,351</u>
Cash, end of year	<u>\$ 650,292</u>	<u>\$ 503,347</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$60,310	\$6,719
Property purchased under capital lease obligations	\$67,912	

See accompanying notes to financial statements.

Houston Area Women's Center

Notes to Financial Statements for the years ended December 31, 2021 and 2020

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 5th 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 3 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.

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 2021 and 2020, HAWC's volunteers contributed 956 hours and 2,825 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 a refundable advance.

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.

Recent financial accounting pronouncements – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. HAWC will adopt this ASU for fiscal year 2022. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

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 fiscal years beginning after June 15, 2021 and requires retrospective application. HAWC will adopt this ASU in fiscal year 2022.

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>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 650,292	\$ 503,347
Contributions receivable, net	3,728,137	3,225,632
Investments	<u>11,850,653</u>	<u>8,165,363</u>
Total financial assets	16,229,082	11,894,342
Less financial assets not available for general expenditure:		
Contributions receivable for capital project, net	(916,799)	
Cash restricted and investments for capital project	(2,379,060)	
Board-designated investments less budgeted \$225,350 and \$200,000 appropriation in 2021 and 2020, respectively	(7,391,152)	(6,088,524)
Endowment investments	<u>(1,787,321)</u>	<u>(1,516,839)</u>
Total financial assets available for general expenditure	<u>\$ 3,754,750</u>	<u>\$ 4,288,979</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.

In April 2020, HAWC received an unsecured bank loan of \$919,800 funded through the U. S. Small Business Administration’s Paycheck Protection Program. The loan and interest was forgiven in August 2021 as HAWC met the eligibility requirements and recognized \$920,267 as government grants in 2021.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	<u>2021</u>	<u>2020</u>
Contributions receivable	\$ 3,879,137	\$ 3,240,261
Allowance for uncollectible contributions	<u>(151,000)</u>	<u>(14,629)</u>
Contributions receivable, net	3,728,137	3,225,632
Less: Contributions receivable for capital project, net	<u>(916,799)</u>	<u> </u>
Operating contributions receivable, net	<u>\$ 2,811,338</u>	<u>\$ 3,225,632</u>

Contributions receivable at December 31, 2021 are expected to be collected as follows:

Receivable in less than one year	\$ 3,337,658
Receivable in one to five years	<u>541,479</u>
Total contributions receivable	<u>\$ 3,879,137</u>

In fiscal year 2021, HAWC recorded an allowance of \$65,000 for potential uncollectible capital campaign contributions based on past experience of collections on capital contributions.

At December 31, 2021, HAWC has approximately \$6,000,000 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.

At December 31, 2021, HAWC also has a \$1,066,026 conditional contribution from the United Way to be used in providing program services from April 1, 2023 to March 31, 2025. The amount is conditioned upon performance and available resources. HAWC will recognize the contribution when the conditions are met.

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 HAWC 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 HAWC’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2021 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Large cap equity mutual fund	\$ 5,981,245			\$ 5,981,245
Intermediate-term bond mutual fund	2,495,475			2,495,475
Exchange-traded funds	960,454			960,454
Corporate bonds		\$ 642,327		642,327
Certificates of deposit		249,797		249,797
Common stock	<u>598</u>			<u>598</u>
Total assets measured at fair value	<u>\$ 9,437,772</u>	<u>\$ 892,124</u>	<u>\$ 0</u>	10,329,896
Cash held in investments				<u>1,520,757</u>
Total investments				<u>\$ 11,850,653</u>

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
Common stock	<u>3,617</u>			<u>3,617</u>
Total assets measured at fair value	<u>\$ 8,085,402</u>	<u>\$ 0</u>	<u>\$ 0</u>	8,085,402
Cash held in investments				<u>79,961</u>
Total investments				<u>\$ 8,165,363</u>

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

- *Mutual funds* are valued at the reported net asset value.
- *Corporate bonds* and *certificates of deposit* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes to calculate fair values.
- *Exchange-traded funds* and *common stock* are 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>2021</u>	<u>2020</u>
Land	\$ 1,905,383	\$ 1,905,383
Building and improvements	9,195,211	9,195,211
Furniture and equipment	2,334,499	2,505,263
Construction in progress	<u>1,333,120</u>	<u>103,618</u>
Total property, at cost	14,768,213	13,709,475
Accumulated depreciation	<u>(8,222,718)</u>	<u>(8,058,306)</u>
Property, net	<u>\$ 6,545,495</u>	<u>\$ 5,651,169</u>

In November 2021, HAWC executed a contract to sell its Counseling and Education land and building and improvements on Waugh Drive at a purchase price of \$13,000,000. The buyer deposited \$500,000 in escrow with the remaining balance due upon closing expected in November 2022.

NOTE 6 – CAPITAL LEASE OBLIGATIONS

HAWC is the lessee of office equipment under a capital lease expiring in July 2023. The assets are amortized over their estimated productive life. Amortization expense of \$32,070 under this capital lease is included in depreciation expense for the year ended December 31, 2021.

As of December 31, 2021, the office equipment cost and accumulated amortization totaled \$67,912 and \$32,070, respectively.

Future minimum lease payments are due as follows:

2022	\$ 22,637
2023	<u>13,205</u>
Capital lease obligations	<u>\$ 35,842</u>

NOTE 7 – LINE OF CREDIT

In April 2020, HAWC obtained a line of credit (LOC), secured by its investment funds, 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, 2021). The LOC has no maturity date, but amounts outstanding must be repaid if the value of the investment funds falls below certain thresholds or is transferred to a different custodian. The balance of the LOC was \$2,357,398 and \$1,381,719 at December 31, 2021 and 2020, respectively.

NOTE 8 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are designated as follows:

	<u>2021</u>	<u>2020</u>
Undesignated	\$ (1,697,401)	\$ (872,696)
Property, net	5,176,533	5,651,169
Board-designated reserves	<u>7,616,502</u>	<u>6,288,524</u>
Total net assets without donor restrictions	<u>\$ 11,095,634</u>	<u>\$ 11,066,997</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 2021, the Board of Directors approved an annual appropriation from the board-designated reserves of \$269,206. 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.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Capital project	\$ 4,494,264	
Direct services	301,810	\$ 610,387
Other		<u>227,000</u>
Total subject to expenditure for specified purpose	<u>4,796,074</u>	<u>837,387</u>
Subject to the passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	<u>655,045</u>	<u>603,213</u>
Endowments subject to spending policy and appropriation:		
Building maintenance	1,463,134	1,241,712
Direct services	308,141	261,509
Transportation	<u>16,046</u>	<u>13,618</u>
Total endowments	<u>1,787,321</u>	<u>1,516,839</u>
Total net assets with donor restrictions	<u>\$ 7,238,440</u>	<u>\$ 2,957,439</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.

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, 2021 or 2020.

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, 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	846,946	669,893	1,516,839
Net investment return	<u>270,482</u>	<u> </u>	<u>270,482</u>
Endowment net assets, December 31, 2021	<u>\$ 1,117,428</u>	<u>\$ 669,893</u>	<u>\$ 1,787,321</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>2021</u>	<u>2020</u>
Federal government grants:		
U. S. Department of Housing and Urban Development	\$ 2,999,244	\$ 1,795,070
U. S. Department of Justice	1,316,437	1,551,723
U. S. Department of Health and Human Services	1,030,690	805,951
U. S. Department of the Treasury	67,695	439,198
U. S. Department of Agriculture	58,022	69,270
U. S. Department of Homeland Security	45,013	9,559
U. S. Small Business Administration (Paycheck Protection Program)	<u>920,267</u>	<u>10,000</u>
Total federal government grants	<u>6,437,368</u>	<u>4,680,771</u>
State and local government grants:		
Office of the Attorney General – State of Texas	522,625	542,470
Texas Health and Human Services Commission	472,635	566,664
Harris County grants		<u>250,338</u>
Total state and local government grants	<u>995,260</u>	<u>1,359,472</u>
Total government grants	<u>\$ 7,432,628</u>	<u>\$ 6,040,243</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 – IN-KIND CONTRIBUTIONS

HAWC recognized the following in-kind contributions and expenses at fair market value during the year ended December 31, 2021:

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Food and supplies	\$ 206,711			\$ 206,711
Professional services		<u>\$ 157,883</u>		<u>157,883</u>
Total in-kind contributions	<u>\$ 206,711</u>	<u>\$ 157,883</u>	<u>\$ 0</u>	<u>\$ 364,594</u>

In 2020, HAWC recognized in-kind contributions of food and supplies with a fair market value of \$292,128 as contribution revenue and program services expense.

NOTE 13 – 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 \$191,000 and \$171,000 to the plan in 2021 and 2020, respectively.

NOTE 14 – TEMPORARY SUPPORTIVE HOUSING PROJECT AND COMMITMENTS

In 2021, 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 \$15,850,000, with a construction loan term of 2 years and a permanent loan term of 15 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 construction of the new 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.

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 the work.

As of December 31, 2021, HAWC has other outstanding commitments totaling approximately \$1,447,000 related to the temporary supportive housing project.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent to December 31, 2021, HAWC drew down approximately \$1,050,000 on its line of credit and transferred \$958,604 from its investment accounts to pay down the line of credit. At May 31, 2022, the balance was \$2,477,484, including accrued interest.

Management has evaluated subsequent events through June 28, 2022, 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.