

**Family Houston
and
Family Service Foundation of Houston**

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2020 and 2019

Family Houston and Family Service Foundation of Houston

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Independent Auditors' Report

To the Board of Directors of
Family Houston:

We have audited the accompanying financial statements of Family Houston and Family Service Foundation of Houston, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

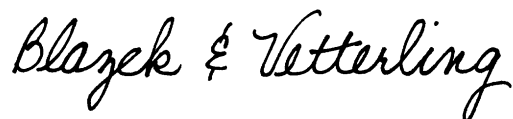
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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. 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 consolidated financial position of Family Houston and Family Service Foundation of Houston as of June 30, 2020 and 2019 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



November 19, 2020

Family Houston and Family Service Foundation of Houston

Consolidated Statements of Financial Position as of June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 1,037,575	\$ 830,344
Prepaid expenses and other assets	123,925	98,786
Contributions receivable:		
United Way	1,169,618	1,227,128
Other	203,225	169,550
Investments (Note 4)	7,261,212	7,147,583
Property, net (Note 5)	<u>912,030</u>	<u>838,765</u>
TOTAL ASSETS	<u>\$ 10,707,585</u>	<u>\$ 10,312,156</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 156,422	\$ 145,228
Accrued salaries and related expenses	340,199	312,974
Deferred revenue	76,711	170,422
Refundable advance – Paycheck Protection Program (Note 7)	<u>700,000</u>	<u> </u>
Total liabilities	<u>1,273,332</u>	<u>628,624</u>
Net assets (Note 9):		
Without donor restrictions (Note 6)	7,401,198	7,620,282
With donor restrictions (Note 8)	<u>2,033,055</u>	<u>2,063,250</u>
Total net assets	<u>9,434,253</u>	<u>9,683,532</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,707,585</u>	<u>\$ 10,312,156</u>

See accompanying notes to consolidated financial statements.

Family Houston and Family Service Foundation of Houston

Consolidated Statement of Activities for the year ended June 30, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
United Way		\$ 3,391,574	\$ 3,391,574
Other contributions	\$ 171,728	410,235	581,963
Government grants		299,980	299,980
Special event contributions	186,868		186,868
Program service fees	857,637		857,637
Net investment return	100,353	5,057	105,410
Other income	19,434		19,434
	<u>1,336,020</u>	<u>4,106,846</u>	<u>5,442,866</u>
Net assets released from restrictions:			
Expiration of time restrictions	2,457,432	(2,457,432)	
Program expenditures	1,679,609	(1,679,609)	
	<u>5,473,061</u>	<u>(30,195)</u>	<u>5,442,866</u>
EXPENSES:			
Program services:			
Mental health	2,468,364		2,468,364
Basic needs	960,583		960,583
Financial stability	953,434		953,434
	<u>4,382,381</u>		<u>4,382,381</u>
Management and general	808,233		808,233
Fundraising	480,449		480,449
Building operations	21,082		21,082
	<u>5,692,145</u>		<u>5,692,145</u>
CHANGES IN NET ASSETS	(219,084)	(30,195)	(249,279)
Net assets, beginning of year	<u>7,620,282</u>	<u>2,063,250</u>	<u>9,683,532</u>
Net assets, end of year	<u>\$ 7,401,198</u>	<u>\$ 2,033,055</u>	<u>\$ 9,434,253</u>

See accompanying notes to consolidated financial statements.

Family Houston and Family Service Foundation of Houston

Consolidated Statement of Activities for the year ended June 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
United Way		\$ 3,665,616	\$ 3,665,616
Other contributions	\$ 156,273	302,706	458,979
Government grants		247,493	247,493
Special event	163,985		163,985
Direct donor benefit costs	(23,785)		(23,785)
Program service fees	703,404		703,404
Net investment return	332,583	26,960	359,543
Other income	88,541		88,541
	<u>1,421,001</u>	<u>4,242,775</u>	<u>5,663,776</u>
Net assets released from restrictions:			
Expiration of time restrictions	2,543,380	(2,543,380)	
Program expenditures	1,963,097	(1,963,097)	
	<u>5,927,478</u>	<u>(263,702)</u>	<u>5,663,776</u>
EXPENSES:			
Program services:			
Mental health	2,241,198		2,241,198
Basic needs	984,896		984,896
Financial stability	1,011,801		1,011,801
	<u>4,237,895</u>		<u>4,237,895</u>
Management and general	905,031		905,031
Fundraising	400,108		400,108
Building operations	149,678		149,678
	<u>5,692,712</u>		<u>5,692,712</u>
CHANGES IN NET ASSETS	234,766	(263,702)	(28,936)
Net assets, beginning of year	<u>7,385,516</u>	<u>2,326,952</u>	<u>9,712,468</u>
Net assets, end of year	<u>\$ 7,620,282</u>	<u>\$ 2,063,250</u>	<u>\$ 9,683,532</u>

See accompanying notes to consolidated financial statements.

Family Houston and Family Service Foundation of Houston

Consolidated Statement of Functional Expenses for the year ended June 30, 2020

EXPENSES	MENTAL HEALTH	BASIC NEEDS	FINANCIAL STABILITY	TOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related expenses	\$ 2,194,454	\$ 603,256	\$ 822,431	\$ 3,620,141	\$ 590,590	\$ 390,864	\$ 4,601,595
Assistance to individuals		271,267		271,267			271,267
Fees and contract services	45,296	11,513	36,550	93,359	117,750	31,036	242,145
Occupancy	61,589	15,575	8,495	85,659	35,486	15,186	136,331
Depreciation	50,091	19,493	19,348	88,932	11,610	6,813	107,355
In-kind rent, supplies and services	44,586	16,789	24,521	85,896			85,896
Insurance	25,930	6,978	9,721	42,629	7,900	4,959	55,488
Supplies	7,883	4,618	17,379	29,880	15,053	3,432	48,365
Software licenses	16,315	3,948	5,344	25,607	3,809	14,011	43,427
Printing and publications	2,559	530	2,352	5,441	7,763	10,900	24,104
Travel and training	11,041	1,581	3,455	16,077	1,267	932	18,276
Telephone	6,653	4,055	2,550	13,258	1,946	974	16,178
Membership dues	1,601		395	1,996	315	700	3,011
Equipment costs	366	980	862	2,208	271	96	2,575
Other			31	31	14,473	546	15,050
Total expenses	<u>\$ 2,468,364</u>	<u>\$ 960,583</u>	<u>\$ 953,434</u>	<u>\$ 4,382,381</u>	<u>\$ 808,233</u>	<u>\$ 480,449</u>	5,671,063
Building operations							<u>21,082</u>
Total							<u>\$ 5,692,145</u>

See accompanying notes to consolidated financial statements.

Family Houston and Family Service Foundation of Houston

Consolidated Statement of Functional Expenses for the year ended June 30, 2019

EXPENSES	MENTAL HEALTH	BASIC NEEDS	FINANCIAL STABILITY	TOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related expenses	\$ 1,977,063	\$ 666,691	\$ 856,378	\$ 3,500,132	\$ 681,196	\$ 286,459	\$ 4,467,787
Assistance to individuals		222,775		222,775			222,775
Fees and contract services	44,585	13,160	39,927	97,672	113,999	60,593	272,264
Occupancy	51,441	19,821	11,655	82,917	21,520	12,471	116,908
Depreciation	25,030	11,000	11,300	47,330	4,448	1,967	53,745
In-kind rent, supplies and services	46,978	13,745	35,814	96,537		537	97,074
Insurance	22,094	7,440	9,553	39,087	7,839	3,215	50,141
Supplies	16,696	10,921	19,367	46,984	33,552	8,014	88,550
Software licenses	22,766	7,674	9,855	40,295	8,327	9,897	58,519
Printing and publications	6,345	1,358	4,049	11,752	12,331	10,063	34,146
Travel and training	18,816	4,678	10,107	33,601	1,350	3,540	38,491
Telephone	7,200	4,802	2,722	14,724	1,927	699	17,350
Membership dues	1,830		415	2,245	300	320	2,865
Equipment costs	354	831	544	1,729	62	81	1,872
Other			115	115	18,180	2,252	20,547
Total expenses	<u>\$ 2,241,198</u>	<u>\$ 984,896</u>	<u>\$ 1,011,801</u>	<u>\$ 4,237,895</u>	<u>\$ 905,031</u>	<u>\$ 400,108</u>	5,543,034
Building operations							149,678
Direct donor benefit costs							<u>23,785</u>
Total							<u>\$ 5,716,497</u>

See accompanying notes to consolidated financial statements.

Family Houston and Family Service Foundation of Houston

Consolidated Statements of Cash Flows for the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (249,279)	\$ (28,936)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized (gain) loss on investments	5,718	(231,874)
Depreciation	107,355	53,745
Loss on valuation of contributions receivable		131,323
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(25,139)	(5,717)
Contributions receivable	23,835	(43,049)
Accounts payable	11,194	112,605
Accrued salaries and related expenses	27,225	(9,475)
Deferred revenue	(93,711)	(81,837)
Refundable advance – Paycheck Protection Program	<u>700,000</u>	<u> </u>
Net cash provided (used) by operating activities	<u>507,198</u>	<u>(103,215)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(953,234)	(693,707)
Sales of investments	980,000	655,000
Net purchase of money market mutual funds held as investments	(146,113)	(388,964)
Purchases of property	<u>(180,620)</u>	<u>(258,654)</u>
Net cash used by investing activities	<u>(299,967)</u>	<u>(686,325)</u>
NET CHANGE IN CASH	207,231	(789,540)
Cash, beginning of year	<u>830,344</u>	<u>1,619,884</u>
Cash, end of year	<u>\$ 1,037,575</u>	<u>\$ 830,344</u>

See accompanying notes to consolidated financial statements.

Family Houston and Family Service Foundation of Houston

Notes to Consolidated Financial Statements for the years ended June 30, 2020 and 2019

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Serving Houston families since 1904, Family Houston is a Texas nonprofit corporation providing a wide range of health and human services for families in the greater Houston community. Family Houston’s programs seek to create a stronger community for tomorrow by helping individuals and families meet the challenges they face today. Family Service Foundation of Houston (the Foundation) is a Texas nonprofit corporation founded to support the mission and benevolent activities of Family Houston. Family Houston is the sole member of the Foundation.

Family Houston’s programs are summarized in the following categories:

- *Mental health* – Counseling and Parenting Resources, providing children, adolescents, and adults with individual, family and group counseling, as well as providing valuable information for raising resilient, self-disciplined children.
- *Basic needs* – Intensive case management, connecting individuals and families to resources and benefits.
- *Financial stability* – Financial and Employment Coaching, guiding individuals and families as they budget, manage debt, improve credit, find employment, and achieve goals, as well as providing one-on-one coaching to help individuals reach their career goals.

Basis of consolidation – The accompanying financial statements include the assets, liabilities, net assets and activities of Family Houston and the Foundation. Balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – Family Houston and the Foundation are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code. Family Houston is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi). The Foundation is classified as a public charity under §509(a)(3)(b)(i) as a Type I supporting organization to Family Houston.

Cash concentration – Demand 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. At June 30, 2020, all contributions receivable are due within one year.

Family Houston provides an allowance for contributions receivable when it believes balances may not be collected in full. It is Family Houston’s policy to write off receivables against the allowance when management determines the receivable will not be collected. The amount of bad debt expense recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and customer-by-customer 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 or at fair value at the date of gift if donated. Depreciation is provided using the straight-line method over estimated useful lives of 5 to 20 years for building and leasehold improvements, and 3 to 10 years for furniture and equipment. Items with a cost or fair value of \$2,000 or more and a useful life of more than 3 years are capitalized.

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. 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 the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before Family Houston is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been substantially met.

Non-cash contributions – Donated materials and use of facilities are recognized at fair value 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. Family Houston recognized approximately \$86,000 and \$97,000 of contributed facility rent, supplies and services in 2020 and 2019, respectively. These amounts are included in contribution revenue and program services expenses in these financial statements.

Special event revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Direct donor benefit costs represent the cost of goods and services provided to attendees of the special event.

Program service fees are derived from providing mental health counseling services to individuals. Performance obligations are recognized at the point in time the services are provided. Program service fees are recognized at the amount of consideration Family Houston expects to be entitled to in exchange for those services. Amounts are due from third-party payors billed weekly at amounts expected to be received and copayments are due from individuals when services are provided. Family Houston's receivables related to program service fees are \$76,114, \$18,155, and \$18,049 at June 30, 2020, 2019, and 2018, respectively. Family Houston has no contract liabilities related to program service fees at June 30, 2020, 2019, and 2018.

Rental income is recognized as revenue ratably over the term of the lease and included in other income.

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 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 and occupancy costs 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 of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation (See Note 2).

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATES

Effective July 1, 2019, Family Houston and the Foundation adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services using a 5-step process to determine when performance obligations are satisfied and revenue is recognized. This ASU has been applied on a retrospective basis to the financial statements for the year ended June 30, 2019. Because the timing and amount of revenue recognized previously is not different from revenue recognized under new guidance, adoption of this standard had no impact on 2019 beginning or ending net assets or changes in net assets.

Effective July 1, 2019, Family Houston and the Foundation also adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies the distinction between contributions and exchange transactions and between conditional and unconditional contributions. This ASU has been applied on a retrospective basis effective July 1, 2018. Adoption of this ASU resulted in reclassification of previously reported government grants revenue to conform to the 2020 presentation but had no impact on total net assets or total changes in net assets for 2019.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 1,037,575	\$ 830,344
Contributions receivable	1,372,843	1,396,678
Other receivables	76,180	18,264
Investments	<u>7,261,212</u>	<u>7,147,583</u>
Total financial assets	9,747,810	9,392,869
Less financial assets not available for general expenditure:		
Investments held by the Foundation, net of 2019 appropriation of approximately \$250,000 for 2020 and \$0 for 2021	(5,325,291)	(5,268,060)
Board-designated cash held by the Foundation	<u>(170,523)</u>	<u>(193,123)</u>
Total financial assets available for general expenditure	<u>\$ 4,251,996</u>	<u>\$ 3,931,686</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Family Houston considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

Family Houston is substantially supported by contributions and service provider contracts, and regularly monitors liquidity required to meet its operating needs while striving to maximize the investment of available funds. As part of the organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Family Houston has an operating reserve policy to designate a minimum of two months of average recurring operating costs. Although Family Houston does not intend to spend from the operating reserve fund, amounts could be made available, if necessary. Operating investments are invested in certificates of deposit and mutual funds, which can be made available should the funds be needed. Additionally, a \$700,000 Paycheck Protection Program loan was obtained in May 2020 and management expects to meet the conditions of forgiveness.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments are held for the following:

	<u>2020</u>	<u>2019</u>
Foundation endowments	\$ 2,837,676	\$ 2,808,446
Foundation undesignated	2,487,615	2,709,613
Family Houston undesignated	<u>1,935,921</u>	<u>1,629,524</u>
Total investments	<u>\$ 7,261,212</u>	<u>\$ 7,147,583</u>

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 June 30, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap index	\$ 1,467,680			\$ 1,467,680
Mid-cap index	1,357,414			1,357,414
Small-cap index	1,283,358			1,283,358
Short-term bond mutual funds	1,260,207			1,260,207
Money market mutual funds	1,111,017			1,111,017
Certificates of deposit		<u>\$ 781,536</u>		<u>781,536</u>
Total assets measured at fair value	<u>\$ 6,479,676</u>	<u>\$ 781,536</u>	<u>\$ 0</u>	<u>\$ 7,261,212</u>

Assets measured at fair value at June 30, 2019 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap index	\$ 1,440,092			\$ 1,440,092
Mid-cap index	1,384,969			1,384,969
Small-cap index	1,359,456			1,359,456
Short-term bond mutual funds	1,195,401			1,195,401
Money market mutual funds	964,904			964,904
Certificates of deposit		<u>\$ 802,761</u>		<u>802,761</u>
Total assets measured at fair value	<u>\$ 6,344,822</u>	<u>\$ 802,761</u>	<u>\$ 0</u>	<u>\$ 7,147,583</u>

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

- *Mutual funds* are valued at the reported net asset value of shares held.
- *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.

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 Family Houston and the Foundation believes their 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	\$ 467,428	\$ 467,428
Building and leasehold improvements	1,743,765	1,641,141
Furniture, equipment and software	<u>925,327</u>	<u>845,776</u>
Total property, at cost	3,136,520	2,954,345
Accumulated depreciation	<u>(2,224,490)</u>	<u>(2,115,580)</u>
Property, net	<u>\$ 912,030</u>	<u>\$ 838,765</u>

NOTE 6 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 4,142,407	\$ 4,458,929
Board-designated for general endowment	2,346,761	2,322,588
Property, net	<u>912,030</u>	<u>838,765</u>
Total net assets without donor restrictions	<u>\$ 7,401,198</u>	<u>\$ 7,620,282</u>

NOTE 7 – REFUNDABLE ADVANCE

In May 2020, Family Houston received an unsecured bank loan of \$700,000 funded through the Small Business Administration's Paycheck Protection Program (PPP). The loan bears interest at 1.0% and may be repaid over 2 years. PPP loan principal and interest may be forgiven, in whole or in part, if funds are used for the intended purposes within 24 weeks of funding. Family Houston intends to apply for forgiveness and will recognize any forgiveness granted upon approval by the lender.

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:		
Family Houston:		
Basic needs	\$ 195,088	\$ 40,000
Financial stability	174,916	265,730
Mental health	<u> </u>	<u>9,531</u>
Total subject to expenditure for specified purpose	<u>370,004</u>	<u>315,261</u>
Subject to the passage of time:		
Family Houston:		
United Way allocations for subsequent periods	1,169,621	1,227,131
Other contributions restricted for future operations	<u>2,515</u>	<u>35,000</u>
Total subject to the passage of time	<u>1,172,136</u>	<u>1,262,131</u>
Endowment subject to spending policy and appropriation	<u>490,915</u>	<u>485,858</u>
Total net assets with donor restrictions	<u>\$ 2,033,055</u>	<u>\$ 2,063,250</u>

NOTE 9 – FOUNDATION ENDOWMENT FUNDS

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments.

Changes in the Foundation's endowment net assets are as follows:

	BOARD- DESIGNATED ENDOWMENT	WITH DONOR RESTRICTIONS		TOTAL
		ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	
Endowment net assets, June 30, 2018	\$ 2,193,706	\$ 248,433	\$ 210,465	\$ 2,652,604
Net investment return	<u>128,882</u>	<u>26,960</u>	<u> </u>	<u>155,842</u>
Endowment net assets, June 30, 2019	<u>2,322,588</u>	<u>275,393</u>	<u>210,465</u>	<u>2,808,446</u>
Net investment return	<u>24,173</u>	<u>5,057</u>	<u> </u>	<u>29,230</u>
Endowment net assets, June 30, 2020	<u>\$ 2,346,761</u>	<u>\$ 280,450</u>	<u>\$ 210,465</u>	<u>\$ 2,837,676</u>

The Board of Directors of the Foundation has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies the original value of gifts donated to the perpetual endowment as *net assets with donor restrictions* not subject to appropriation or expenditure. The remaining portion of the donor-restricted endowment fund is classified as *net assets with donor restrictions* subject to spending policy and appropriation until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Foundation considers the duration and reservation of the funds and other resources of the Foundation in making a determination to appropriate or accumulate donor-restricted endowment funds.

Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the Board of Directors, the overall investment objective is to provide a maximum total return while exposing the Foundation to a reasonable, but not excessive amount of risk.

To satisfy its long-term rate-of-return objectives, the Foundation 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). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation's endowment spending policy allows a maximum appropriation of 5% of the fund's fair market value determined based on a three-year rolling average. Distributions are approved by the Board of Directors of the Foundation annually.

NOTE 10 – CONDITIONAL CONTRIBUTIONS

At June 30, 2020, Family Houston has approximately \$300,000 of conditional contributions from a government agency, which has not been recognized in the accompanying financial statements because the conditions have not been met. Family Houston will recognize this grant as qualifying grant expenditures are incurred and/or performance requirements are met.

At June 30, 2020, Family Houston has approximately \$160,000 conditional contributions from United Way and a foundation which have not been recognized in the accompanying financial statements because the conditions have not been met. Family Houston will recognize these contributions when the barriers required by the donor have been overcome.

NOTE 11 – EMPLOYEE BENEFIT PLAN

Family Houston participates in a §403(b) plan administered by Mutual of America Life Insurance Company. Employees may elect to participate after one year of service by contributing up to 15% of their compensation to the plan. Each year, Family Houston makes a contribution of 2% of participants' compensation and, in addition, makes a matching contribution equal to 100% of the employee's contribution up to a maximum of 3% of the employee's compensation. Family Houston contributed approximately \$128,000 and \$115,000 to this plan during the years ended June 30, 2020 and 2019, respectively.

NOTE 12 – SUBSEQUENT EVENTS

On March 11, 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of a coronavirus, COVID-19, and on March 13, 2020, a national emergency was declared in the United States. Stay-at-home orders have caused temporary closures of the counseling service centers since March 2020, but services are continuing through on-line platforms. The extent of the impact of COVID-19 on Family Houston's future operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on donors, clients, employees, and length of time the counseling service centers are closed, all of which are uncertain and cannot be predicted. While Family Houston expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

Management has evaluated subsequent events through November 19, 2020, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.