

Interfaith Ministries for Greater Houston

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

Interfaith Ministries for Greater Houston

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Independent Auditors' Report

To the Board of Directors of
Interfaith Ministries for Greater Houston:

Report on the Financial Statements

We have audited the accompanying financial statements of Interfaith Ministries for Greater Houston, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019 and the related consolidated statements of activities, of cash flows, and of functional expenses 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 consolidated financial position of Interfaith Ministries for Greater Houston as of June 30, 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 October 27, 2020 on our consideration of Interfaith Ministries for Greater Houston'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 Interfaith Ministries for Greater Houston'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 Interfaith Ministries for Greater Houston's internal control over financial reporting and compliance.

Blazek & Vetterling

October 27, 2020

Interfaith Ministries for Greater Houston

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

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents (<i>Note 4</i>)	\$ 5,930,118	\$ 4,158,250
Accounts receivable	82,475	27,397
Operating contribution and government grants receivable, net (<i>Note 5</i>):		
Government grants	1,078,732	834,184
United Way allocation	395,044	434,956
Other	567,565	763,285
Interest income receivable	69,739	69,739
Prepaid and other assets	134,898	161,108
Food supplies	152,720	229,980
Contributions receivable for capital projects, net (<i>Note 5</i>)	391,964	658,868
Cash restricted by notes payable (<i>Notes 4 and 9</i>)	48,547	85,866
Note receivable (<i>Note 6</i>)	8,368,740	8,368,740
Property and equipment, net (<i>Note 7</i>)	<u>13,917,899</u>	<u>14,297,046</u>
TOTAL ASSETS	<u>\$31,138,441</u>	<u>\$30,089,419</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 523,412	\$ 517,449
Accrued salaries and benefits	421,990	331,512
Construction payable		185,564
Other accrued liabilities	116,950	120,780
Refundable advances – government grants	223,351	566,016
Paycheck Protection Program refundable advance	979,900	
Notes payable (<i>Note 8</i>)		1,290,000
New Market Tax Credits notes payable, net (<i>Note 9</i>)	<u>10,516,310</u>	<u>10,487,905</u>
Total liabilities	<u>12,781,913</u>	<u>13,499,226</u>
Net assets:		
Without donor restrictions	10,548,761	8,822,199
With donor restrictions (<i>Note 10</i>)	<u>7,807,767</u>	<u>7,767,994</u>
Total net assets	<u>18,356,528</u>	<u>16,590,193</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$31,138,441</u>	<u>\$30,089,419</u>

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

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

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government awards (Note 11)		\$ 8,831,240	\$ 8,831,240
United Way allocation		788,087	788,087
Other (Note 12)	\$ 2,430,317	4,128,629	6,558,946
Special event	707,248		707,248
Cost of direct donor benefit – special event	(73,125)		(73,125)
Program service fees	1,127,063		1,127,063
Rental income (Note 13)	102,758		102,758
Interest income on note receivable (Note 6)	83,687		83,687
Interest income	53,351		53,351
Other income	123,894		123,894
Total revenue	4,555,193	13,747,956	18,303,149
Net assets released from restrictions:			
Satisfaction of program restrictions	12,241,903	(12,241,903)	
Satisfaction of capital restrictions	1,466,280	(1,466,280)	
Total	18,263,376	39,773	18,303,149
EXPENSES:			
Program services:			
Senior services	9,046,066		9,046,066
Refugee services	2,933,652		2,933,652
Volunteer Houston	534,793		534,793
Interfaith relations	450,619		450,619
Total program services	12,965,130		12,965,130
Supporting services:			
Management and general	1,708,414		1,708,414
Fundraising	1,326,014		1,326,014
Building rental operations	537,256		537,256
Total supporting services	3,571,684		3,571,684
Total expenses	16,536,814		16,536,814
CHANGES IN NET ASSETS	1,726,562	39,773	1,766,335
Net assets, beginning of year	8,822,199	7,767,994	16,590,193
Net assets, end of year	\$10,548,761	\$ 7,807,767	\$18,356,528

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

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

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government awards (Note 11)		\$ 8,321,588	\$ 8,321,588
United Way allocation		860,818	860,818
Other (Note 12)	\$ 2,367,164	3,240,930	5,608,094
Special event	652,043	102,275	754,318
Cost of direct donor benefit – special event	(153,455)	(1,599)	(155,054)
Program service fees	659,979		659,979
Rental income (Note 13)	103,802		103,802
Interest income on note receivable (Note 6)	83,687		83,687
Interest income	80,846		80,846
Other income	55,756		55,756
Total revenue	3,849,822	12,524,012	16,373,834
Net assets released from restrictions:			
Satisfaction of program restrictions	12,503,735	(12,503,735)	
Satisfaction of capital restrictions	697,948	(697,948)	
Total	17,051,505	(677,671)	16,373,834
EXPENSES:			
Program services:			
Senior services	9,185,835		9,185,835
Refugee services	2,651,058		2,651,058
Interfaith relations	727,984		727,984
Total program services	12,564,877		12,564,877
Supporting services:			
Management and general	1,613,016		1,613,016
Fundraising	1,457,151		1,457,151
Building rental operations	429,361		429,361
Total supporting services	3,499,528		3,499,528
Total expenses	16,064,405		16,064,405
CHANGES IN NET ASSETS	987,100	(677,671)	309,429
Net assets, beginning of year (Note 2)	7,835,099	8,445,665	16,280,764
Net assets, end of year	\$ 8,822,199	\$ 7,767,994	\$16,590,193

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater 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	\$ 1,766,335	\$ 309,429
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for capital projects	(434,200)	(456,821)
Depreciation	595,869	485,297
In-kind donation of capital assets		(258,068)
Amortization of debt issuance costs	28,405	28,405
Provision for uncollectible accounts	7,709	73,793
Gain on sale of property	(1,771)	
Changes in operating assets and liabilities:		
Accounts receivable	(55,078)	(200,215)
Operating contributions and government grants receivable	(16,625)	(51,385)
Prepaid and other assets	26,210	41,534
Food supplies	77,260	(35,485)
Accounts payable	5,963	5,262
Accrued salaries and benefits	90,478	22,815
Other accrued liabilities	(3,830)	7,309
Refundable advances	(342,665)	95,458
Paycheck Protection Program refundable advance	<u>979,900</u>	
Net cash provided by operating activities	<u>2,723,960</u>	<u>67,328</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(428,303)	(2,384,809)
Proceeds from involuntary conversion of property	<u>27,788</u>	
Net cash used by investing activities	<u>(400,515)</u>	<u>(2,384,809)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(1,290,000)	
Proceeds from contributions restricted for capital projects	<u>701,104</u>	<u>1,209,021</u>
Net cash provided (used) by financing activities	<u>(588,896)</u>	<u>1,209,021</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,734,549	(1,108,460)
Cash and cash equivalents, beginning of year	<u>4,244,116</u>	<u>5,352,576</u>
Cash and cash equivalents, end of year	<u>\$ 5,978,665</u>	<u>\$ 4,244,116</u>
<i>Reconciliation of cash and cash equivalents:</i>		
Cash and cash equivalents	\$ 5,930,118	\$ 4,158,250
Cash restricted by notes payable	<u>48,547</u>	<u>85,866</u>
Total cash and cash equivalents	<u>\$ 5,978,665</u>	<u>\$ 4,244,116</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$161,262	\$148,324
Property purchase financed with notes payable		\$700,000

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

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

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL EXPENSES
	SENIOR SERVICES	REFUGEE SERVICES	VOLUNTEER HOUSTON	INTERFAITH RELATIONS	MANAGEMENT AND GENERAL	FUNDRAISING	BUILDING RENTAL OPERATIONS	
Salaries	\$ 2,406,372	\$ 1,023,944	\$ 181,645	\$ 273,938	\$ 910,906	\$ 628,931	\$ 101,096	\$ 5,526,832
Employee benefits	656,105	262,951	47,403	60,117	165,724	137,305	28,284	1,357,889
Food supplies	4,416,883							4,416,883
Assistance to individuals	240,141	1,325,448						1,565,589
Professional fees and contract services	180,331	72,360	187,719	14,190	294,923	119,581	16,290	885,394
Depreciation	238,632	60,648	4,014	25,874	45,413	28,820	192,468	595,869
Occupancy	219,136	82,995	8,927	26,735	74,382	41,085	132,965	586,225
Service delivery and transportation	295,457	26,118						321,575
Direct mail and advertising	11,078	17,904	5,214	14,496	33,015	234,007		315,714
Supplies	57,500	9,132	88,633	18,389	11,359	7,838	5,106	197,957
Insurance	108,610	18,621	543	3,501	21,973	3,899	18,581	175,728
Interest expense	29,767	11,479	863	5,563	66,461	6,196	29,528	149,857
Vehicle maintenance and repair	120,838	4,095						124,933
Meetings and travel	15,090	4,765	2,417	2,977	20,261	37,446	161	83,117
Printing and publications	4,220	996	3,610	751	14,305	45,093		68,975
Communications	27,707	10,501	1,630	2,948	8,590	3,937	9,483	64,796
Postage and delivery	2,256	334	1,111	72	4,360	18,041		26,174
Provision for uncollectible accounts						7,709		7,709
Other	15,943	1,361	1,064	1,068	36,742	6,126	3,294	65,598
Total expenses	<u>\$ 9,046,066</u>	<u>\$ 2,933,652</u>	<u>\$ 534,793</u>	<u>\$ 450,619</u>	<u>\$ 1,708,414</u>	<u>\$ 1,326,014</u>	<u>\$ 537,256</u>	16,536,814
Cost of direct donor benefit – special event								<u>73,125</u>
Total								<u>\$16,609,939</u>

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

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

	PROGRAM SERVICES			SUPPORTING SERVICES			TOTAL EXPENSES
	SENIOR SERVICES	REFUGEE SERVICES	INTERFAITH RELATIONS	MANAGEMENT AND GENERAL	FUNDRAISING	BUILDING RENTAL OPERATIONS	
Salaries	\$ 2,359,223	\$ 1,004,969	\$ 423,418	\$ 922,044	\$ 548,277	\$ 82,211	\$ 5,340,142
Employee benefits	642,891	273,933	95,579	173,904	117,115	21,986	1,325,408
Food supplies	4,129,736						4,129,736
Assistance to individuals	603,025	1,028,938					1,631,963
Professional fees and contract services	187,845	86,841	34,088	215,240	185,820	21,798	731,632
Depreciation	202,854	60,022	27,553	41,327	19,651	133,890	485,297
Occupancy	260,750	74,891	35,160	69,298	44,001	110,161	594,261
Service delivery and transportation	381,609	30,770	20				412,399
Direct mail and advertising	20,883	14,880	19,094	4,359	323,819		383,035
Supplies	46,417	9,115	52,585	10,548	16,075	5,680	140,420
Insurance	96,358	19,761	5,502	17,139	3,532	17,378	159,670
Interest expense	52,276	14,410	7,339	67,215	5,234	25,753	172,227
Vehicle maintenance and repair	125,179	11,138					136,317
Meetings and travel	29,209	5,831	17,672	26,737	63,774	248	143,471
Printing and publications	5,537	1,463	3,721	14,284	29,506	102	54,613
Communications	26,456	12,187	4,279	7,466	2,626	7,229	60,243
Postage and delivery	1,609	200	215	4,292	15,004	12	21,332
Provision for uncollectible accounts					73,793		73,793
Other	13,978	1,709	1,759	39,163	8,924	2,913	68,446
Total expenses	<u>\$ 9,185,835</u>	<u>\$ 2,651,058</u>	<u>\$ 727,984</u>	<u>\$ 1,613,016</u>	<u>\$ 1,457,151</u>	<u>\$ 429,361</u>	16,064,405
Cost of direct donor benefit – special event							<u>153,054</u>
Total							<u>\$16,217,459</u>

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Interfaith Ministries for Greater Houston’s (Interfaith Ministries) mission is to bring people of diverse faith traditions together for dialogue, collaboration, and service, as a representation of our shared beliefs. Interfaith Ministries’ goals are to provide direct service, collaboration, and education in the following areas:

- *Senior services* include home-delivered meals, pet food assistance, and supportive social services for homebound seniors and individuals with disabilities. Meals on Wheels delivers nutritious lunch, breakfast, weekend and emergency shelf-stable meals to thousands of individuals each day. Animeals on Wheels delivers pet food to seniors with companion animals. Client Services provide expanded assessments of client needs and refers clients to supplemental service providers.
- *Refugee services* assists both newly arrived refugees and established refugees in the Greater Houston community. Refugee services provides resettlement services, English as a Second Language referrals, job placement services, counseling and cultural orientation services, case management, career laddering and cash and rental assistance services.
- *Interfaith relations/community partnerships* fosters understanding, respect and engagement among people of all faith traditions through educational opportunities and community service. Interfaith relations/community partnerships provides opportunities for connection, engagement, education and training.
- *Volunteer Houston*, a Points of Light affiliate program, connects individuals, groups, and companies with nonprofit agencies to transform the Greater Houston community through volunteerism. Volunteer Houston offers customized, fully-managed corporate volunteer projects that have engaged thousands of volunteers and hundreds of local nonprofits.
- *Building rental operations* serves a dual purpose for Interfaith Ministries: to bring in additional rental income to support overall occupancy costs for the organization and to provide a valuable event and convening space to the greater Houston community. Interfaith Ministries offers its meeting spaces to nonprofit, community and governmental organizations at a reduced cost or pro bono, to enhance its partnerships with those entities in furtherance of its mission.

In 2013, IM Support was organized as a Texas nonprofit corporation to secure New Market Tax Credits (NMTC) financing for the construction of the W.T. and Louise J. Moran Building and the renovations of the Albert and Ethel Herzstein Building and to hold ownership of these properties. IM Support’s board of directors is appointed by Interfaith Ministries.

Basis of consolidation – These financial statements include the assets, liabilities, net assets, and activities of Interfaith Ministries and IM Support (collectively Interfaith). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – Interfaith Ministries and IM Support are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code, except for unrelated business income. Interfaith Ministries is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi). IM Support is classified as a Type I supporting organization under §509(a)(3).

Cash equivalents are highly liquid financial instruments with original maturity dates of three months or less.

Contributions and government grants 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 to estimate the present value of future cash flows, if material. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contributions and government grants 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 donor-by-donor analysis of balances.

Food supplies consist primarily of breakfast foods, frozen meals, and pet foods. Donated food supplies are valued at approximate average wholesale value of one pound of donated product based on the national per pound price as provided by the most recent Feeding America Product Valuation Survey. Purchased food is valued at the cost of products purchased as determined by the first-in, first-out method.

Restricted cash represents amounts required to be maintained in a separate bank account by IM Support according to the New Market Tax Credits Financing Commitment for the project's approved expenses.

Note receivable is reported at its outstanding principal balance. The note receivable is considered to be fully collectible, and accordingly, no allowance for doubtful accounts has been provided. In making that determination, management evaluated the financial condition of the borrower, the estimated value of the underlying collateral, and current economic conditions. Interest on the note receivable is recognized over the term of the note receivable and is calculated using the simple-interest method on principal amounts outstanding.

Property and equipment is reported at cost if purchased and at fair value at the date of gift if donated. Additions and improvements with a cost of more than \$5,000 are capitalized. Depreciation is provided on a straight-line basis over estimated useful lives of 20 to 40 years for building, 5 to 10 years for furniture and equipment, and 7 years for vehicles.

Debt issuance costs represent costs related to the issuance of the NMTC and are amortized over the term of the bonds. Accumulated amortization is \$196,470 and \$168,065 at June 30, 2020 and 2019, respectively. Unamortized debt issuance costs are reported as a direct reduction of the related debt.

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 and government awards are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions and grants received with donor stipulations that limit their use are classified as restricted support. Conditional contributions and grants are subject to one or more barriers that must be overcome before Interfaith is entitled to receive or retain funding. Conditional contributions and grants are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as refundable advances and are recognized in the same manner when the conditions are met. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are classified as restricted support. Awards of food commodities are recognized as revenue at fair market value when received and program expense when distributed. Undistributed food commodities are included in food supplies.

Donated materials, use of facilities and services – Donated materials and use of facilities are recognized at fair value as unrestricted 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, administration and fundraising for which no amount has been reported in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Special event revenue includes elements of both contributions and exchange transactions and are recognized when the event occurs. Amounts received prior to the event occurring are reported as refundable advances. Cost of direct donor benefits represents the costs of goods and services provided in exchange for the amount paid by event attendees to attendees of special events.

Program service fees and accounts receivable are derived from contracts with managed care organizations and non-government service partners to provide meals and fees charged to companies to coordinate customized and fully managed service projects. Revenue is recognized at a point in time when the services are provided, in an amount that reflects the consideration Interfaith expects to be entitled in exchange for those services. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts and implicit price concessions. Interfaith does not assess collectability on accounts prior to providing services, does not require collateral, and does not provide financing. Subsequent changes to the estimated transaction price are generally recorded as adjustments to program service fees in the period of the change. For the years ended June 30, 2020 and 2019, adjustments arising from a change in the transaction price were not significant. Subsequent changes that are determined to be the result of an adverse change in the customer's ability to pay are recorded as bad debt. Revenue for contracts with managed care organizations and medical providers is billed monthly and payment is due within 10 days. Revenue for contracts with companies for managed service projects is billed prior to the services being provided and is due within 10 days of invoice. Amounts received in advance of the events are recorded as refundable advances. Accounts receivable relate to Interfaith's right to consideration for services provided. Accounts receivable were \$82,475, \$27,397, and \$17,455 at June 30, 2020, 2019, and 2018, respectively.

Rental income is recognized as revenue ratably over the term of the lease.

Estimates – Management makes 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.

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 actual time and effort expended. Depreciation is allocated based on program or supporting activity benefits from the asset being depreciated. Occupancy expenses are allocated based on square footage occupied by the program or supporting activity, and information technology costs are allocated based on the number of employees with active licenses.

Recent financial accounting pronouncement – In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. This ASU requires a financial asset, which is measured at amortized cost, to be presented at the net amount expected to be collected. This ASU eliminates the probable initial recognition threshold in current accounting principles and, instead reflects an entity’s current estimate of all expected credit losses based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Interfaith is required to apply the amendment in its June 30, 2023 financial statements using a modified retrospective approach. Management has not determined the impact on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATES

Interfaith 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 to the financial statements for the year ended June 30, 2019. Adoption of this standard had no impact on 2019 net assets or changes in net assets, but resulted in a change in the presentation of government grants.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. 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 and establishes a 5-step process to determine when performance obligations are satisfied, and revenue is recognized. Interfaith adopted this ASU for fiscal year 2020 using a full retrospective method. The timing and amount of revenue recognized previously is consistent with how revenue is recognized under this ASU and therefore, adoption of this ASU had no impact on total net assets or total changes in net assets in fiscal year 2019, but resulted in reclassification of previously reported bad debt to conform to the 2020 presentation and additional disclosures.

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 and cash equivalents	\$ 5,978,665	\$ 4,244,116
Accounts receivable	82,475	27,397
Contributions and government grants receivable	2,433,305	2,691,293
Interest income receivable	69,739	69,739
Note receivable	<u>8,368,740</u>	<u>8,368,740</u>
Total financial assets	16,932,924	15,401,285
Less financial assets not available for general expenditure:		
Restricted by donor for use in future periods or for future projects	(968,887)	(1,918,678)
Note receivable for NMTC	(8,368,740)	(8,368,740)
NMTC cash reserve for future periods	<u>(48,547)</u>	<u>(85,866)</u>
Total financial assets available for general expenditure	<u>\$ 7,546,750</u>	<u>\$ 5,028,001</u>

Interfaith is substantially supported by government awards and contributions and regularly monitors liquidity required to meet its operating needs while striving to maximize available funds. Interfaith considers all expenditures related to its ongoing activities of bringing people of diverse faith traditions together for dialogue, collaboration, and service, as well as the conduct of services undertaken to support those activities, to be general expenditures. Interfaith has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Interfaith also has a committed operating line of credit in the amount of \$1 million, which it could draw upon in the event of an unanticipated liquidity need.

In April 2020, Interfaith received financial relief of \$979,900 under the Small Business Administration's Paycheck Protection Program (PPP). Management expects the PPP loan to be forgiven as Interfaith meets the eligibility requirements and used the loan to fund qualified payroll and other eligible costs. The loan is considered to be a conditional contribution and will be recognized as contribution revenue in fiscal year 2021 upon forgiveness by the bank. Any amounts not forgiven bear interest at 1% and are due March 2022.

NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2020</u>	<u>2019</u>
Demand deposits	\$ 5,978,665	\$ 747,120
Money market mutual funds	<u> </u>	<u>3,496,996</u>
Total cash and cash equivalents	<u>\$ 5,978,665</u>	<u>\$ 4,244,116</u>

Bank deposits exceed the federally insured limit per depositor per institution. Money market mutual funds are valued at the published net asset value of shares held at year end and are classified in the

Level 1 fair value hierarchy. Level 1 assets or liabilities 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.

NOTE 5 – CONTRIBUTIONS AND GOVERNMENT GRANTS RECEIVABLE

Contributions and government grants receivable are as follows:

	<u>2020</u>	<u>2019</u>
Receivable from government agencies	\$ 1,083,561	\$ 834,184
Contributions receivable	<u>1,423,552</u>	<u>2,069,453</u>
Contributions and government grants receivable	2,507,113	2,903,637
Discount to net present value at rates ranging from 1.01% to 2.73%	(36)	(2,351)
Allowance for uncollectible contributions and government grants	<u>(73,772)</u>	<u>(209,993)</u>
Contributions and government grants receivable, net	<u>\$ 2,433,305</u>	<u>\$ 2,691,293</u>

Contributions and government grants receivable at June 30, 2020 are expected to be collected as follows:

Receivable in less than one year	\$ 2,490,811
Receivable in one to five years	<u>9,167</u>
Total contributions and government grants receivable	<u>\$ 2,499,978</u>

As of June 30, 2020, approximately 44% of contributions receivable other than receivables from government agencies, were due from two contributors. As of June 30, 2019, approximately 42% of contributions receivable, other than receivables from government agencies, were due from two contributors.

At June 30, 2020, Interfaith has approximately \$3.1 million of conditional contributions from various government agencies, which have not been recognized in the accompanying financial statements because the conditions have not been met. Interfaith will recognize these grants as qualifying grant expenditures are incurred and/or performance requirements are met.

NOTE 6 – NOTE RECEIVABLE

Interfaith Ministries entered into an agreement in August 2013 to lend \$8,368,740 to Chase NMTC IM Houston Investment Fund, LLC (Chase NMTC Fund). The note is secured by Chase NMTC Fund's membership interest in Consortium America XXVIII, LLC (CA CDE) and PeopleFund NMTC 2, LLC (PF CDE), (collectively the CDEs) and other cash accounts and property held by a secured party. The interest rate on the note is fixed at 1%. Interest is due annually beginning September 2013 until September 2020. Thereafter, principal and interest payments of \$510,343 are due annually with all unpaid principal and interest due on September 1, 2038, the maturity date. Interest earned was \$83,687 in 2020 and 2019, of which \$69,740 is receivable at June 30, 2020 and 2019.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 4,416,868	\$ 4,416,868
Building	10,745,292	8,677,714
Furniture and equipment	737,349	708,912
Vehicles	1,090,391	947,468
Construction in progress	<u> </u>	<u>2,039,842</u>
Total property and equipment, at cost	16,989,900	16,790,804
Accumulated depreciation	<u>(3,072,001)</u>	<u>(2,493,758)</u>
Property and equipment, net	<u>\$13,917,899</u>	<u>\$14,297,046</u>

NOTE 8 – NOTES PAYABLE

In June 2018, Interfaith entered into a loan agreement with a financial institution to borrow up to \$1.36 million to refinance a construction loan and fund short-term cash needs for capital improvements. The loan bore interest at prime rate and was collateralized by a bank account. Interest was due monthly with principal and accrued interest due at maturity date of June 15, 2023. Interest expense of \$19,753 and \$33,058 was recognized for the years ended June 30, 2020 and 2019, respectively. This note payable has been paid in full.

In December 2018, Interfaith assumed a \$700,000 note payable with a buyer for the purchase of property. The note bore interest at 6%, and was collateralized by a deed of trust on the property. Interest was due monthly with principal and accrued interest due at the maturity date of September 2038. Interest expense of \$47,441 and \$45,101 was recognized for the years ended June 30, 2020 and 2019, respectively. This note payable has been paid in full.

Interfaith has a \$1 million revolving line of credit with a financial institution, which bears interest at prime rate. At June 30, 2020, there was no amount outstanding under the line of credit. The line of credit matures in December 2020 and is secured by accounts at the financial institution.

NOTE 9 – NEW MARKET TAX CREDITS NOTES PAYABLE

IM Support executed a loan agreement in 2013 that provided for borrowings of \$7,350,000 and \$3,822,000 from CA CDE and PF CDE, respectively. The loans financed the construction of the W.T. and Louise J. Moran Building and the renovations of the Albert and Ethel Herzstein Building and are intended to be treated as a “qualified low-income community investment” for purposes of generating New Market Tax Credits under Section 45D of the Internal Revenue Code of 1986, as amended. The loans are secured by a property deed of trust, security agreement, assignment of rents and financing statements, certain bank accounts, and fixture filing on this property and a guaranty by Interfaith.

Pursuant to the issuance of the New Market Tax Credits Financing Commitment, IM Support is required to maintain certain funds at JPMorgan Chase Bank, N.A. (JPMorgan) until such time as they are disbursed for the project’s approved expenses. Amounts totaling \$48,547 and \$85,866 are held at JPMorgan for this purpose at June 30, 2020 and 2019, respectively.

New Market Tax Credits notes payable consist of the following:

	<u>2020</u>	<u>2019</u>
Total New Market Tax Credits notes payable	\$11,172,000	\$11,172,000
Less: Unamortized debt issuance costs	<u>(655,690)</u>	<u>(684,095)</u>
New Market Tax Credits notes payable, net	<u>\$10,516,310</u>	<u>\$10,487,905</u>

The balances outstanding on the notes payable at June 30, 2020 and repayment terms are as follows:

Note payable to Consortium America XXVIII, LLC.	\$ 5,505,750
Note payable to PeopleFund NMTC 2, LLC.	2,862,990
Note payable to Consortium America XXVIII, LLC.	1,844,250
Note payable to PeopleFund NMTC 2, LLC.	<u>959,010</u>
Total New Market Tax Credits notes payable	<u>\$11,172,000</u>

Interest expense was \$94,068 in 2020 and 2019, of which \$78,390 was payable at June 30, 2020 and 2019.

Each loan accrues interest at 0.842%. Interest is due annually beginning in September 2013 through September 2020; thereafter, principal and interest installment payments of \$536,328 are due annually beginning in September 2021 with the unpaid balance due in its entirety at the maturity date of September 1, 2043. IM Support is not permitted to prepay any portion of the loans until the seventh anniversary of the loan.

Within 90 days after the seventh anniversary of the note receivable, JPMorgan can exercise its put option to sell its interest in the Chase NMTC Fund to Interfaith Ministries for \$1,000. If JPMorgan does not exercise the put option, Interfaith Ministries can exercise its call option within 90 days after the put option period ends to purchase the interest in the Chase NMTC Fund at fair market value. After exercising its option to purchase the interest in the Chase NMTC Fund, Interfaith Ministries may cancel the New Market Tax Credits notes payable.

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Senior services	\$ 6,294,921	\$ 5,503,909
Capital acquisitions	400,186	1,432,266
Refugee services	1,051,300	770,625
Interfaith relations	<u>61,360</u>	<u>61,194</u>
Total net assets with donor restrictions	<u>\$ 7,807,767</u>	<u>\$ 7,767,994</u>

NOTE 11 – GOVERNMENT AWARDS

Interfaith Ministries 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 revenue recognized during the years ended June 30, 2020 and 2019 include the following:

	<u>2020</u>	<u>2019</u>
Federal government awards:		
U. S. Department of Health and Human Services	\$ 5,300,894	\$ 5,164,402
U. S. Department of Agriculture	393,201	521,160
U. S. Department of State	386,548	406,997
U. S. Department of Housing and Urban Development	348,050	287,632
U. S. Department of Homeland Security	<u>133,999</u>	<u>160,104</u>
Total federal government awards	<u>6,562,692</u>	<u>6,540,295</u>
State government awards:		
Texas Department of Agriculture	1,640,979	1,295,095
Texas Veterans Commission	<u>190,812</u>	<u>21,476</u>
Total state government awards	<u>1,831,791</u>	<u>1,316,571</u>
Galveston County awards	337,562	203,877
Harris County awards	98,695	260,595
Liberty County awards	<u>500</u>	<u>250</u>
Total government awards	<u>\$ 8,831,240</u>	<u>\$ 8,321,588</u>

Government awards require fulfillment of certain conditions as set forth in the agreements 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 Interfaith Ministries with the terms of the agreements. Management believes such disallowances, if any, would not be material to Interfaith Ministries' financial position or changes in net assets.

During 2020, Interfaith Ministries received food commodities from The Houston Food Bank passed through from the U. S. Department of Agriculture (USDA). The value of the food is based on the national per pound price as provided by the most recent Feeding America Product Valuation Survey and the invoiced weight provided by The Houston Food Bank. In 2020, Interfaith Ministries recognized \$393,201 of food commodity awards from USDA based on the receipt of 242,717 pounds of food at \$1.62 per pound. In 2019, Interfaith Ministries recognized \$521,160 of food commodity awards from USDA based on the receipt of 317,687 pounds of food at \$1.68 per pound, net of processing fees. As of June 30, 2020, there was no USDA inventory and as of June 30, 2019, \$172,937 of USDA inventory was included in food supplies.

NOTE 12 – NON-CASH CONTRIBUTIONS

Interfaith recognized the following non-cash contributions as a component of other contributions:

	<u>2020</u>	<u>2019</u>
Donated goods:		
Senior services	\$ 346,208	\$ 804,736
Refugee services	138,853	160,791
Fundraising	23,904	15,691
Management and general	14,371	4,235
Capital campaign	5,444	
Volunteer Houston	3,155	
Interfaith relations/community partnerships	100	4,800
Donated services:		
Management and general	118,960	16,183
Refugee services	52,825	39,762
Fundraising	51,680	19,465
Senior services	34,800	14,421
Capital assets	21,170	258,068
Interfaith relations/community partnerships	<u>4,589</u>	<u>5,374</u>
Total non-cash contributions	<u>\$ 816,059</u>	<u>\$ 1,343,526</u>

NOTE 13 – RENTAL INCOME

Interfaith Ministries leases office space to tenants under noncancelable operating leases. Future rental income on noncancelable operating leases related to this rental property is \$82,500 in fiscal year 2021 and none thereafter. Rental income of \$84,720 and \$94,799 was recognized in the financial statements related to the lease agreements for the years ended June 30, 2020 and 2019, respectively.

NOTE 14 – EMPLOYEE BENEFIT PLAN

Interfaith Ministries offers a Safe Harbor §403(b) Thrift Plan (the Plan) that covers all employees. Employees may contribute amounts to the Plan up to the limits established by the Internal Revenue Code. Interfaith Ministries matches 100% of each employee's voluntary contributions, but not to exceed 3% of the eligible compensation, and 50% of contributions exceeding 3% of eligible compensation, but not to exceed 5% of the employee's eligible compensation. Interfaith Ministries contributed approximately \$146,000 and \$136,000 to the Plan during the years ended June 30, 2020 and 2019, respectively.

NOTE 15 – PANDEMIC AND SUBSEQUENT EVENTS

On March 11, 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and on March 13, 2020, a national emergency was declared in the United States.

Business disruption caused by the pandemic is expected to reduce revenue in 2021. The extent of the impact of COVID-19 on Interfaith's future operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on those served by Interfaith,

clients, employees, donors, governmental agencies, and vendors, all of which are uncertain and cannot be predicted. While Interfaith expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

In August of 2020, JPMorgan exercised its put option to sell its interest in the Chase NMTC Fund to Interfaith Ministries. Interfaith Ministries forgave the New Market Tax Credits note payable and the note receivable from the Chase NMTC Fund was cancelled resulting in a net gain of \$2.8 million being recognized on the transaction.

Management has evaluated subsequent events through October 27, 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.
