

**Mental Health America of Greater Houston, Inc.
and MHA of Greater Houston Foundation, Inc.**

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

Mental Health America of Greater Houston, Inc. and MHA of Greater Houston Foundation, Inc.

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Independent Auditors' Report

To the Board of Directors of
Mental Health America of Greater Houston, Inc.:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mental Health America of Greater Houston, Inc. and MHA of Greater Houston Foundation, Inc., which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, 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 consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Mental Health America of Greater Houston, Inc. and MHA of Greater Houston Foundation, Inc. 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. 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 Mental Health America of Greater Houston, Inc. and MHA of Greater Houston Foundation, Inc. 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 Mental Health America of Greater Houston, Inc. and MHA of Greater Houston Foundation, Inc.'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 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, 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 Mental Health America of Greater Houston, Inc. and MHA of Greater Houston Foundation, Inc.'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 Mental Health America of Greater Houston, Inc. and MHA of Greater Houston Foundation, Inc.'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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Supplementary information in the supplemental consolidating statements of financial position as of December 31, 2021 and 2020 and the supplemental consolidating statements of activities for the years ended December 31, 2021 and 2020 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Blazek & Vetterling

March 17, 2022

**Mental Health America of Greater Houston, Inc. and
MHA of Greater Houston Foundation, Inc.**

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

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 3,001,040	\$ 2,003,633
Accounts receivable	31,778	30,911
Accrued interest receivable	14,973	12,501
Contributions receivable, net (<i>Note 3</i>)	392,956	1,141,573
Government grant receivable	194,853	
Investments (<i>Note 4</i>)	7,975,691	6,894,074
Other assets	17,316	7,652
Property and equipment, net (<i>Note 5</i>)	<u>64,086</u>	<u>97,570</u>
TOTAL ASSETS	<u>\$ 11,692,693</u>	<u>\$ 10,187,914</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 161,461	\$ 253,088
Contract advance	1,700	3,000
Refundable advance – special event revenue	162,250	50,000
Refundable advance – Paycheck Protection Program	<u> </u>	<u>381,900</u>
Total liabilities	<u>325,411</u>	<u>687,988</u>
Net assets:		
Without donor restrictions (<i>Note 6</i>)	2,730,861	2,144,279
With donor restrictions (<i>Notes 7 and 8</i>)	<u>8,636,421</u>	<u>7,355,647</u>
Total net assets	<u>11,367,282</u>	<u>9,499,926</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,692,693</u>	<u>\$ 10,187,914</u>

See accompanying notes to consolidated financial statements.

**Mental Health America of Greater Houston, Inc. and
MHA of Greater Houston Foundation, Inc.**

Consolidated Statement of Activities for the year ended December 31, 2021

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Contributions <i>(Note 3)</i>	\$ 489,858	\$ 2,673,317	\$ 3,163,175
Government grants <i>(Note 2)</i>		1,173,581	1,173,581
United Way contributions		90,280	90,280
Government service contract fees	99,286		99,286
Program service fees	111,136		111,136
Net investment return	<u>(17,699)</u>	<u>912,689</u>	<u>894,990</u>
Total revenue	682,581	4,849,867	5,532,448
Net assets released from restrictions:			
Program expenditures	<u>3,569,093</u>	<u>(3,569,093)</u>	<u> </u>
Total	<u>4,251,674</u>	<u>1,280,774</u>	<u>5,532,448</u>
EXPENSES:			
Program services	2,722,227		2,722,227
Management and general	630,166		630,166
Fundraising	<u>312,699</u>		<u>312,699</u>
Total expenses	<u>3,665,092</u>		<u>3,665,092</u>
CHANGES IN NET ASSETS			
	586,582	1,280,774	1,867,356
Net assets, beginning of year	<u>2,144,279</u>	<u>7,355,647</u>	<u>9,499,926</u>
Net assets, end of year	<u>\$ 2,730,861</u>	<u>\$ 8,636,421</u>	<u>\$ 11,367,282</u>

See accompanying notes to consolidated financial statements.

**Mental Health America of Greater Houston, Inc. and
MHA of Greater Houston Foundation, Inc.**

Consolidated Statement of Activities for the year ended December 31, 2020

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Note 3</i>)	\$ 468,702	\$ 2,257,807	\$ 2,726,509
United Way contributions		120,272	120,272
Government service contract fees	99,286		99,286
Program service fees	147,070		147,070
Net investment return	<u>60,236</u>	<u>451,676</u>	<u>511,912</u>
Total revenue	775,294	2,829,755	3,605,049
Net assets released from restrictions:			
Program expenditures	<u>3,121,462</u>	<u>(3,121,462)</u>	<u> </u>
Total	<u>3,896,756</u>	<u>(291,707)</u>	<u>3,605,049</u>
EXPENSES:			
Program services	2,679,480		2,679,480
Management and general	692,267		692,267
Fundraising	<u>310,352</u>		<u>310,352</u>
Total expenses	<u>3,682,099</u>		<u>3,682,099</u>
CHANGES IN NET ASSETS	214,657	(291,707)	(77,050)
Net assets, beginning of year	<u>1,929,622</u>	<u>7,647,354</u>	<u>9,576,976</u>
Net assets, end of year	<u>\$ 2,144,279</u>	<u>\$ 7,355,647</u>	<u>\$ 9,499,926</u>

See accompanying notes to consolidated financial statements.

**Mental Health America of Greater Houston, Inc. and
MHA of Greater Houston Foundation, Inc.**

Consolidated 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	\$ 1,867,356	\$ (77,050)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Contributions restricted for endowment	(16,000)	(11,000)
Depreciation	35,701	36,817
Net realized and unrealized gain on investments	(833,121)	(381,703)
Changes in operating assets and liabilities:		
Accounts receivable	(867)	(12,397)
Accrued interest receivable	(2,472)	(767)
Contributions receivable	749,617	(103,421)
Government grant receivable	(194,853)	
Other assets	(9,664)	12,077
Accounts payable and accrued expenses	(91,627)	(159,477)
Contract advance	(1,300)	3,000
Refundable advance – special event revenue	112,250	
Refundable advance – Paycheck Protection Program	<u>(381,900)</u>	<u>381,900</u>
Net cash provided (used) by operating activities	<u>1,233,120</u>	<u>(312,021)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,196,275	4,003,068
Purchases of investments	(1,709,581)	(3,500,774)
Net change in cash held as investments	618,979	(368,297)
Net change in certificates of deposit	(354,169)	(117,434)
Purchases of furniture and equipment	<u>(2,217)</u>	<u>(32,191)</u>
Net cash used by investing activities	<u>(250,713)</u>	<u>(15,628)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for endowment	<u>15,000</u>	<u>11,000</u>
NET CHANGE IN CASH	997,407	(316,649)
Cash, beginning of year	<u>2,003,633</u>	<u>2,320,282</u>
Cash, end of year	<u>\$ 3,001,040</u>	<u>\$ 2,003,633</u>

See accompanying notes to consolidated financial statements.

**Mental Health America of Greater Houston, Inc. and
MHA of Greater Houston Foundation, Inc.**

Consolidated Statement of Functional Expenses for the year ended December 31, 2021

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries	\$ 1,608,663	\$ 426,885	\$ 208,849	\$ 2,244,397
Employee benefits	238,308	63,239	30,939	332,486
Payroll taxes and related costs	<u>126,630</u>	<u>33,603</u>	<u>16,440</u>	<u>176,673</u>
Total salaries and related costs	1,973,601	523,727	256,228	2,753,556
Grants	290,000			290,000
Professional fees and contract services	167,221	34,661	5,619	207,501
Occupancy	138,716	30,083	15,041	183,840
Equipment and software expense	28,280	20,706	16,537	65,523
Depreciation	26,938	5,842	2,921	35,701
Printing and publications	28,236	99	4,694	33,029
Conferences and meetings	23,896	1,716	1,499	27,111
Transportation	12,046	946	1,265	14,257
Supplies	8,310	1,802	901	11,013
Telephone	7,425	1,908	1,244	10,577
Membership dues	3,155	2,058	695	5,908
Postage and shipping	773	221	3,116	4,110
Other	<u>13,630</u>	<u>6,397</u>	<u>2,939</u>	<u>22,966</u>
Total expenses	<u>\$ 2,722,227</u>	<u>\$ 630,166</u>	<u>\$ 312,699</u>	<u>\$ 3,665,092</u>

See accompanying notes to consolidated financial statements.

**Mental Health America of Greater Houston, Inc. and
MHA of Greater Houston Foundation, Inc.**

Consolidated Statement of Functional Expenses for the year ended December 31, 2020

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries	\$ 1,421,997	\$ 486,810	\$ 212,860	\$ 2,121,667
Employee benefits	196,757	67,358	29,453	293,568
Payroll taxes and related costs	<u>108,951</u>	<u>37,299</u>	<u>16,309</u>	<u>162,559</u>
Total salaries and related costs	1,727,705	591,467	258,622	2,577,794
Grants	30,000			30,000
Professional fees and contract services	311,342	44,632	3,421	359,395
Occupancy	140,885	30,400	18,305	189,590
Equipment and software expense	45,083	3,405	16,197	64,685
Depreciation	27,359	5,903	3,555	36,817
Printing and publications	110,449	827	2,799	114,075
Conferences and meetings	241,844	1,510	795	244,149
Transportation	11,051	90	497	11,638
Supplies	9,167	1,978	1,191	12,336
Telephone	8,796	1,833	1,240	11,869
Membership dues	3,239	2,227	840	6,306
Postage and shipping	1,435	702	1,802	3,939
Other	<u>11,125</u>	<u>7,293</u>	<u>1,088</u>	<u>19,506</u>
Total expenses	<u>\$ 2,679,480</u>	<u>\$ 692,267</u>	<u>\$ 310,352</u>	<u>\$ 3,682,099</u>

See accompanying notes to consolidated financial statements.

Mental Health America of Greater Houston, Inc. and MHA of Greater Houston Foundation, Inc.

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

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – Mental Health America of Greater Houston, Inc. (MHA of Greater Houston) is a Texas nonprofit, tax-exempt corporation formed to enhance the mental health of all Houstonians and improve the lives of those with mental illness. MHA of Greater Houston accomplishes this through collaborations, education, outreach, and advocacy.

MHA of Greater Houston Foundation, Inc. (the Foundation) is a Texas nonprofit, tax-exempt corporation formed to provide support for the programs of MHA of Greater Houston. The sole member of the Foundation is MHA of Greater Houston.

Federal income tax status – MHA of Greater Houston and the Foundation are exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code. MHA of Greater 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.

Basis of consolidation – These consolidated financial statements include the assets, liabilities, net assets and activities of MHA of Greater Houston and the Foundation (collectively MHA). All balances and transactions between the consolidated entities have been eliminated.

Cash – Bank deposits exceed the federally insured limit per depositor per institution. Cash held for investment purposes is grouped with investments and is excluded from cash for purposes of the statements of cash flows.

Contributions receivable and government grant 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, 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 contribution revenue.

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 and equipment is reported at cost. Depreciation is recognized on a straight-line basis over estimated useful lives of 3 to 5 years. Expenditures greater than \$500, with a useful life greater than one year, 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. 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 grants are recognized as revenue at estimated 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 and government grants are subject to one or more barriers that must be overcome before the organization is entitled to receive or retain funding. Conditional contributions and government grants are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as refundable advances.

Non-cash contributions – Donated materials and use of facilities are recognized at estimated 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.

Special event revenue is recognized when the event occurs. Amounts received for future events represent conditional contributions and are reported in the statement of financial position as refundable advance – special event revenue until earned. Direct donor benefit costs represent the costs of goods and services provided to attendees of the special event.

Program service fees are derived from contracts with independent school districts, schools, other not-for-profits, and government agencies in Harris and surrounding counties to provide training on recognizing and addressing mental health issues. The revenue is recognized as the performance obligations are satisfied in an amount that reflects the consideration that MHA expects to be entitled to in exchange for those services based on negotiated contract terms. All performance obligations related to revenue from contracts with customers are satisfied based on the output method over a period of time as the training is provided. Service fees are due in accordance with negotiated terms of the contract and the invoice is due upon receipt. Amounts receivable represent non-interest bearing balances due for services for which all performance obligations have been performed and are recognized at their net realizable value.

Subsequent changes as a result of an adverse change in the organization's ability to pay are recorded as bad debt expense. MHA had no material adjustments related to subsequent changes in the estimate of the transaction price or subsequent changes of an adverse change in an organization's ability to pay for periods reported.

Amounts received in advance of satisfying performance obligations are reported as a contract advance in the statement of financial position. Contract advances at December 31, 2021, 2020, and 2019 were \$1,700, \$3,000, and \$0, respectively. Accounts receivable at December 31, 2021, 2020, and 2019 were \$31,778, \$30,911, and \$18,514, respectively.

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. Occupancy, maintenance, and other costs are directly charged when specifically related to a function and allocated on the basis of employee head count when attributable to more than one activity.

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.

Recent financial accounting pronouncement – 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. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. 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. The ASU is effective for fiscal periods beginning after December 15, 2021. MHA plans to adopt this ASU for fiscal year ending December 31, 2022. Upon adoption, management expects to recognize lease commitments as both a right of use asset and a lease liability in the statement of financial position for commitments that are currently only disclosed in the financial statements.

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	\$ 3,001,040	\$ 2,003,633
Accounts receivable	31,778	30,911
Accrued interest receivable	14,973	12,501
Contributions receivable, net	392,956	1,141,573
Government grant receivable	194,853	
Investments	<u>7,975,691</u>	<u>6,894,074</u>
Total financial assets	11,611,291	10,082,692
Less financial assets not available for general expenditure:		
Donor-restricted endowment assets not approved for use in coming year	(5,769,523)	(5,045,226)
Donor-restricted contributions not expected to be used in coming year	(247,499)	(422,132)
Board-designated funds for operating reserves not approved for use in coming year	<u>(715,000)</u>	<u>(595,000)</u>
Total financial assets available for general expenditure	<u>\$ 4,879,269</u>	<u>\$ 4,020,334</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, MHA considers all expenditures related to its ongoing activities of collaborations, education, outreach and advocacy on mental health, as well as the conduct of services undertaken to support those activities, to be general expenditures.

MHA receives significant contributions restricted by donors and government contract and service fees for specific programs which are ongoing, major, and central to its annual operations and considers these funds to be available to meet its cash needs for general expenditures. MHA's Board of Directors has designated \$715,000 of its unrestricted resources for operating reserves. These funds are invested, but remain available and may be spent at the discretion of the Board of Directors. Additionally, included in financial assets available for general expenditure is the projected endowment appropriation for fiscal year 2022.

MHA received financial relief of approximately \$849,000 under the Small Business Administration's Paycheck Protection Program (PPP), including the Second Draw PPP. MHA met the eligibility requirements for forgiveness for both loans and recognized the government grant revenue in fiscal year 2021. Additionally, MHA qualified to receive Employee Retention Tax Credits under the CARES Act. During fiscal year 2021, MHA recognized government grant revenue of approximately \$194,000 related to such credits.

NOTE 3 – CONTRIBUTIONS AND GOVERNMENT GRANT RECEIVABLE

Contributions receivable are as follows:

	<u>2021</u>	<u>2020</u>
Contributions receivable	\$ 397,301	\$ 1,144,695
Discount to net present value at 0.36%-1.26%	<u>(4,345)</u>	<u>(3,122)</u>
Contributions receivable, net	<u>\$ 392,956</u>	<u>\$ 1,141,573</u>

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

Less than one year	\$ 221,607
One to five years	<u>175,694</u>
Total contributions receivable	<u>\$ 397,301</u>

Approximately 88% and 98% of contributions receivable are due from one and two donors, respectively, for the years ended December 31, 2021 and 2020. Approximately 65% and 48% of contributions were received from two donors in fiscal years 2021 and 2020, respectively.

Government grant receivables relate to the Employee Retention Tax Credits and are expected to be collected in fiscal year 2022.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.

- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

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

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stocks:				
Technology and communications	\$ 1,510,454			\$ 1,510,454
Consumer goods and services	790,174			790,174
Industrial goods and services	540,348			540,348
Financial industry	520,607			520,607
Healthcare	459,956			459,956
Energy and related industries	166,291			166,291
Materials	124,198			124,198
Real estate	44,168			44,168
Negotiable certificates of deposit		\$ 2,040,569		2,040,569
Corporate bonds		1,393,078		1,393,078
U. S. Treasury notes	268,741			268,741
Equity mutual funds	<u>83,871</u>			<u>83,871</u>
Total assets measured at fair value	<u>\$ 4,508,808</u>	<u>\$ 3,433,647</u>	<u>\$ 0</u>	7,942,455
Cash				<u>33,236</u>
Total investments				<u>\$ 7,975,691</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:				
Common stocks:				
Technology and communications	\$ 1,154,155			\$ 1,154,155
Consumer goods and services	579,361			579,361
Industrial goods and services	489,228			489,228
Financial industry	405,757			405,757
Healthcare	380,439			380,439
Energy and related industries	77,018			77,018
Materials	185,759			185,759
Real estate	6,958			6,958
Utilities	22,537			22,537
Negotiable certificates of deposit		\$ 1,686,400		1,686,400
Corporate bonds		621,537		621,537
U. S. Treasury notes	457,396			457,396
Equity mutual funds	126,654			126,654
Exchange-traded funds	<u>48,660</u>			<u>48,660</u>
Total assets measured at fair value	<u>\$ 3,933,922</u>	<u>\$ 2,307,937</u>	<u>\$ 0</u>	6,241,859
Cash				<u>652,215</u>
Total investments				<u>\$ 6,894,074</u>

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

- *Common stocks* and *exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Negotiable certificates of deposit* and *corporate bonds* 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.
- *U. S. Treasury notes* are valued using prices obtained from active markets and inter-dealer brokers on a daily basis.
- *Mutual funds* are valued at the reported net asset value.

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 MHA 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 AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2021</u>	<u>2020</u>
Office furniture and equipment	\$ 183,115	\$ 180,900
Leasehold improvements	84,701	84,701
Artwork	<u>12,850</u>	<u>12,850</u>
Total property and equipment	280,666	278,451
Accumulated depreciation	<u>(216,580)</u>	<u>(180,881)</u>
Property and equipment, net	<u>\$ 64,086</u>	<u>\$ 97,570</u>

NOTE 6 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2021</u>	<u>2020</u>
Undesignated	\$ 1,951,775	\$ 1,451,709
Board-designated operating reserve	715,000	595,000
Property and equipment, net	<u>64,086</u>	<u>97,570</u>
Total net assets without donor restrictions	<u>\$ 2,730,861</u>	<u>\$ 2,144,279</u>

MHA's Board of Directors' policy for board-designated reserves stipulates that the Board of Directors has the authority to designate the use of *net assets without donor restrictions* and approve the use of those designated net assets.

NOTE 7 – 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:		
Program activities	\$ 2,669,898	\$ 2,125,421
Endowments subject to spending policy and appropriation:		
Swalm Center for Community Action	4,906,950	4,337,417
Maureen Hackett Endowed Fund for Public Policy	586,485	498,037
General endowment	<u>473,088</u>	<u>394,772</u>
Total endowments	<u>5,966,523</u>	<u>5,230,226</u>
Total net assets with donor restrictions	<u>\$ 8,636,421</u>	<u>\$ 7,355,647</u>

NOTE 8 – ENDOWMENT FUNDS

The Foundation's endowment was established to provide long-term support to community action, public policy and general operating support. Donor-restricted endowment funds are maintained in accordance with explicit donor stipulations and are subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). TUPMIFA provides guidelines about what constitutes prudent spending and explicitly requires consideration of preservation of the fund. The Board of Directors of the Foundation has interpreted TUPMIFA as requiring a focus on the entirety of donor-restricted endowment funds, including original gift amounts and net appreciation, allowing the Foundation to appropriate for expenditure or accumulate as much of an endowment fund as considered prudent for the uses, benefits, purposes, and duration for which the fund was established, subject to explicit donor stipulations.

As a result of this interpretation, the Foundation classifies contributions to an endowment plus any donor-stipulated accumulations as *net assets with donor restrictions* required to be maintained in perpetuity. This amount is not reduced by investment losses or by appropriation and spending. The portion of the endowment not required to be maintained in perpetuity is also classified as *net assets with donor restrictions* until appropriated in accordance with spending policies and used for the stipulated purpose, if any.

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 with prudent spending. There were no such deficiencies at December 31, 2021 or 2020.

Spending Policy

The Foundation has adopted a policy of appropriating for distribution each year 4%-5% of the lesser of 1) a rolling 36-month average unit of values of the endowment fund or 2) the unit value of the endowment fund at December 31. The Board of Trustees of the Foundation reviews this policy annually. Any distributions from the corpus must be approved by two-thirds of the members of the Board of Trustees of the Foundation and MHA of Greater Houston.

Investment Policy

Endowment funds are maintained in investment accounts which are managed by the Foundation's Board of Trustees with oversight provided by independent investment managers. Investment decisions follow guidance provided in an investment policy approved by the Board of Trustees of the Foundation. The investment policies attempt to provide a predictable stream of funding to programs supported while

seeking to maintain the purchasing power of the endowment assets. The Foundation expects its endowment funds, over time, to provide an average rate-of-return of approximately 4-6 percentage points. 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 an emphasis on a blend of equity-based investments and fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

Changes in endowment net assets are as follows:

	<u>WITH DONOR RESTRICTIONS</u>		<u>TOTAL</u>
	<u>ACCUMULATED NET INVESTMENT RETURN</u>	<u>REQUIRED TO BE MAINTAINED IN PERPETUITY</u>	
Endowment net assets, December 31, 2019	\$ 1,520,810	\$ 3,438,514	\$ 4,959,324
Contributions		11,000	11,000
Net investment return	451,676		451,676
Distributions	<u>(191,774)</u>		<u>(191,774)</u>
Endowment net assets, December 31, 2020	1,780,712	3,449,514	5,230,226
Contributions		16,000	16,000
Net investment return	912,689		912,689
Distributions	<u>(192,392)</u>		<u>(192,392)</u>
Endowment net assets, December 31, 2021	<u>\$ 2,501,009</u>	<u>\$ 3,465,514</u>	<u>\$ 5,966,523</u>

NOTE 9 – RETIREMENT PLAN

MHA maintains a contributory benefit plan that covers substantially all of its full-time employees. MHA contributes 6% of a participant's base salary to the plan and also matches the first 4% of additional voluntary employee contributions to the plan. Contributions to the plan were \$144,469 and \$113,807 for years ended December 31, 2021 and 2020, respectively.

NOTE 10 – LEASE AGREEMENTS

MHA has long-term leases for office space and equipment from unrelated parties under operating lease agreements. Lease expense was \$183,841 in 2021. Future lease commitments at December 31, 2021 are as follows:

2022	\$ 217,690
2023	<u>129,087</u>
Total	<u>\$ 346,777</u>

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 17, 2022, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

**Mental Health America of Greater Houston, Inc. and
MHA of Greater Houston Foundation, Inc.**

Supplemental Consolidating Statement of Financial Position as of December 31, 2021

	MHA OF GREATER <u>HOUSTON</u>	<u>FOUNDATION</u>	<u>TOTAL</u>
ASSETS			
Cash	\$ 2,981,891	\$ 19,149	\$ 3,001,040
Accounts receivable	31,778		31,778
Accrued interest receivable	3,721	11,252	14,973
Contributions receivable, net	391,956	1,000	392,956
Government grant receivable	194,853		194,853
Investments	2,040,569	5,935,122	7,975,691
Other assets	17,316		17,316
Property and equipment, net	<u>64,086</u>	<u> </u>	<u>64,086</u>
TOTAL ASSETS	<u>\$ 5,726,170</u>	<u>\$ 5,966,523</u>	<u>\$ 11,692,693</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	\$ 161,461		\$ 161,461
Contract advance	1,700		1,700
Refundable advance – special event revenue	<u>162,250</u>		<u>162,250</u>
Total liabilities	<u>325,411</u>		<u>325,411</u>
Net assets:			
Without donor restrictions	2,730,861		2,730,861
With donor restrictions	<u>2,669,898</u>	<u>\$ 5,966,523</u>	<u>8,636,421</u>
Total net assets	<u>5,400,759</u>	<u>5,966,523</u>	<u>11,367,282</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,726,170</u>	<u>\$ 5,966,523</u>	<u>\$ 11,692,693</u>

**Mental Health America of Greater Houston, Inc. and
MHA of Greater Houston Foundation, Inc.**

Supplemental Consolidating Statement of Financial Position as of December 31, 2020

	MHA OF GREATER <u>HOUSTON</u>	<u>FOUNDATION</u>	<u>TOTAL</u>
ASSETS			
Cash	\$ 1,988,484	\$ 15,149	\$ 2,003,633
Accounts receivable	30,911		30,911
Accrued interest receivable	5,098	7,403	12,501
Contributions receivable, net	1,141,573		1,141,573
Investments	1,686,400	5,207,674	6,894,074
Other assets	7,652		7,652
Property and equipment, net	<u>97,570</u>		<u>97,570</u>
TOTAL ASSETS	<u>\$ 4,957,688</u>	<u>\$ 5,230,226</u>	<u>\$ 10,187,914</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	\$ 253,088		\$ 253,088
Contract advance	3,000		3,000
Refundable advance – special event revenue	50,000		50,000
Refundable advance – Paycheck Protection Program	<u>381,900</u>		<u>381,900</u>
Total liabilities	<u>687,988</u>		<u>687,988</u>
Net assets:			
Without donor restrictions	2,144,279		2,144,279
With donor restrictions	<u>2,125,421</u>	<u>\$ 5,230,226</u>	<u>7,355,647</u>
Total net assets	<u>4,269,700</u>	<u>5,230,226</u>	<u>9,499,926</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,957,688</u>	<u>\$ 5,230,226</u>	<u>\$ 10,187,914</u>

**Mental Health America of Greater Houston, Inc. and
MHA of Greater Houston Foundation, Inc.**

Supplemental Consolidating Statement of Activities for the year ended December 31, 2021

	MHA OF GREATER <u>HOUSTON</u>	<u>FOUNDATION</u>	<u>ELIMINATIONS</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 3,332,175	\$ 16,000	\$ (185,000)	\$ 3,163,175
Government grants	1,173,581			1,173,581
United Way contributions	90,280			90,280
Government service contract fees	99,286			99,286
Program service fees	111,136			111,136
Net investment return	<u>(17,699)</u>	<u>912,689</u>		<u>894,990</u>
Total revenue	<u>4,788,759</u>	<u>928,689</u>	<u>(185,000)</u>	<u>5,532,448</u>
EXPENSES:				
Program services	2,722,227	185,000	(185,000)	2,722,227
Management and general	622,774	7,392		630,166
Fundraising	<u>312,699</u>			<u>312,699</u>
Total expenses	<u>3,657,700</u>	<u>192,392</u>	<u>(185,000)</u>	<u>3,665,092</u>
CHANGES IN NET ASSETS	1,131,059	736,297	0	1,867,356
Net assets, beginning of year	<u>4,269,700</u>	<u>5,230,226</u>		<u>9,499,926</u>
Net assets, end of year	<u>\$ 5,400,759</u>	<u>\$ 5,966,523</u>	<u>\$ 0</u>	<u>\$ 11,367,282</u>

**Mental Health America of Greater Houston, Inc. and
MHA of Greater Houston Foundation, Inc.**

Supplemental Consolidating Statement of Activities for the year ended December 31, 2020

	MHA OF GREATER <u>HOUSTON</u>	<u>FOUNDATION</u>	<u>ELIMINATIONS</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 2,899,509	\$ 11,000	\$ (184,000)	\$ 2,726,509
United Way contributions	120,272			120,272
Government service contract fees	99,286			99,286
Program service fees	147,070			147,070
Net investment return	<u>60,236</u>	<u>451,676</u>		<u>511,912</u>
Total revenue	<u>3,326,373</u>	<u>462,676</u>	<u>(184,000)</u>	<u>3,605,049</u>
EXPENSES:				
Program services	2,679,480	184,000	(184,000)	2,679,480
Management and general	684,493	7,774		692,267
Fundraising	<u>310,352</u>			<u>310,352</u>
Total expenses	<u>3,674,325</u>	<u>191,774</u>	<u>(184,000)</u>	<u>3,682,099</u>
CHANGES IN NET ASSETS	(347,952)	270,902	0	(77,050)
Net assets, beginning of year	<u>4,617,652</u>	<u>4,959,324</u>		<u>9,576,976</u>
Net assets, end of year	<u>\$ 4,269,700</u>	<u>\$ 5,230,226</u>	<u>\$ 0</u>	<u>\$ 9,499,926</u>
