

HSPVA Friends

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

HSPVA Friends

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Independent Auditors' Report

To the Board of Directors of
HSPVA Friends:

We have audited the accompanying financial statements of HSPVA Friends, which comprise the statements of financial position as of July 31, 2021 and 2020 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

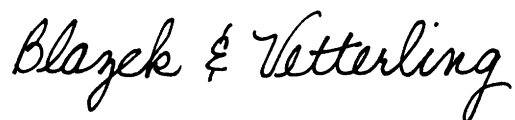
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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 financial position of HSPVA Friends as of July 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.



December 17, 2021

HSPVA Friends

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

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 803,796	\$ 1,000,083
Contributions receivable		8,500
Prepaid expenses	25,131	11,685
Cash restricted or designated for downtown campus (<i>Note 3</i>)	2,330,611	2,328,904
Investments (<i>Note 4</i>)	<u>1,350,003</u>	<u>1,109,324</u>
TOTAL ASSETS	<u>\$ 4,509,541</u>	<u>\$ 4,458,496</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 31,092	\$ 59,022
Refundable advance – Paycheck Protection Program loan (<i>Note 2</i>)	<u>36,948</u>	<u>36,948</u>
Total liabilities	<u>68,040</u>	<u>95,970</u>
Net assets:		
Without donor restrictions	1,104,329	1,228,959
With donor restrictions (<i>Notes 5 and 6</i>)	<u>3,337,172</u>	<u>3,133,567</u>
Total net assets	<u>4,441,501</u>	<u>4,362,526</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,509,541</u>	<u>\$ 4,458,496</u>

See accompanying notes to financial statements.

HSPVA Friends

Statement of Activities for the year ended July 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 165,799	\$ 259,748	\$ 425,547
Program fees	31,671		31,671
Special events	160,097	100,594	260,691
Direct donor benefit costs	(31,451)	(1,561)	(33,012)
Net investment return	<u>17,908</u>	<u>217,601</u>	<u>235,509</u>
Total revenue	344,024	576,382	920,406
Net assets released from restrictions:			
Program expenditures	<u>372,777</u>	<u>(372,777)</u>	
Total	<u>716,801</u>	<u>203,605</u>	<u>920,406</u>
EXPENSES:			
Program	622,164		622,164
Management and general	123,704		123,704
Fundraising	<u>95,563</u>		<u>95,563</u>
Total expenses	<u>841,431</u>		<u>841,431</u>
CHANGES IN NET ASSETS	(124,630)	203,605	78,975
Net assets, beginning of year	<u>1,228,959</u>	<u>3,133,567</u>	<u>4,362,526</u>
Net assets, end of year	<u>\$ 1,104,329</u>	<u>\$ 3,337,172</u>	<u>\$ 4,441,501</u>

See accompanying notes to financial statements.

HSPVA Friends

Statement of Activities for the year ended July 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 129,086	\$ 242,199	\$ 371,285
Program fees	296,479		296,479
Special events	179,854	112,132	291,986
Direct donor benefit costs	(52,980)	(3,220)	(56,200)
Net investment return	<u>19,241</u>	<u>16,481</u>	<u>35,722</u>
Total revenue	571,680	367,592	939,272
Net assets released from restrictions:			
Program expenditures	<u>537,687</u>	<u>(537,687)</u>	
Total	<u>1,109,367</u>	<u>(170,095)</u>	<u>939,272</u>
EXPENSES:			
Program	923,799		923,799
Management and general	133,738		133,738
Fundraising	<u>99,156</u>		<u>99,156</u>
Total expenses	<u>1,156,693</u>		<u>1,156,693</u>
CHANGES IN NET ASSETS	(47,326)	(170,095)	(217,421)
Net assets, beginning of year	<u>1,276,285</u>	<u>3,303,662</u>	<u>4,579,947</u>
Net assets, end of year	<u>\$ 1,228,959</u>	<u>\$ 3,133,567</u>	<u>\$ 4,362,526</u>

See accompanying notes to financial statements.

HSPVA Friends

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

<u>EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2021 TOTAL</u>
Salaries and benefits	\$ 82,366	\$ 49,115	\$ 63,794	\$ 195,275
Artist fees	236,539			236,539
Professional fees	119,417	25,331		144,748
Supplies	63,405	1,435	18,329	83,169
Scholarship awards	58,823			58,823
Rent and utilities		26,828		26,828
Technology and equipment	17,468			17,468
Printing and publications	6,601	1,392	8,412	16,405
Dues and subscriptions		13,299		13,299
Catering	7,307			7,307
Travel	6,365			6,365
Bank and credit card fees		4,580		4,580
Grants for downtown campus	2,724			2,724
Other	21,149	1,724	5,028	27,901
Total expenses	<u>\$ 622,164</u>	<u>\$ 123,704</u>	<u>\$ 95,563</u>	<u>\$ 841,431</u>

<u>EXPENSES</u>	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2020 TOTAL</u>
Salaries and benefits	\$ 84,102	\$ 42,727	\$ 62,287	\$ 189,116
Artist fees	257,670			257,670
Professional fees	81,906	31,496		113,402
Supplies	147,823	3,074	19,973	170,870
Scholarship awards	40,022			40,022
Rent and utilities		27,008		27,008
Technology and equipment	18,347			18,347
Printing and publications	35,935	4,702	11,218	51,855
Dues and subscriptions		4,172		4,172
Catering	11,231			11,231
Travel	83,164			83,164
Bank and credit card fees		18,910		18,910
Grants for downtown campus	130,016			130,016
Other	33,583	1,649	5,678	40,910
Total expenses	<u>\$ 923,799</u>	<u>\$ 133,738</u>	<u>\$ 99,156</u>	<u>\$ 1,156,693</u>

See accompanying notes to financial statements.

HSPVA Friends

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

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 78,975	\$ (217,421)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Net realized and unrealized (gain) loss on investments	(200,470)	14,798
Changes in operating assets and liabilities:		
Contributions receivable	8,500	78,282
Prepaid expenses	(13,446)	10,015
Accounts payable and accrued expenses	(27,930)	54,392
Refundable advance – Paycheck Protection Program loan	<u> </u>	<u>36,948</u>
Net cash used by operating activities	<u>(154,371)</u>	<u>(22,986)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	187,214	292,975
Purchases of investments	(241,166)	(306,604)
Net change in money market mutual funds held as investments	<u>13,743</u>	<u>(12,713)</u>
Net cash used by investing activities	<u>(40,209)</u>	<u>(26,342)</u>
NET CHANGE IN CASH	(194,580)	(49,328)
Cash, beginning of year	<u>3,328,987</u>	<u>3,378,315</u>
Cash, end of year	<u>\$ 3,134,407</u>	<u>\$ 3,328,987</u>

Reconciliation of cash reported in the statements of financial position with cash reported in the statements of cash flows:

Cash	\$ 803,796	\$ 1,000,083
Cash restricted or designated for downtown campus	<u>2,330,611</u>	<u>2,328,904</u>
Total cash	<u>\$ 3,134,407</u>	<u>\$ 3,328,987</u>

See accompanying notes to financial statements.

HSPVA Friends

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – HSPVA Friends was incorporated in 1980 and is a supporting organization for The Houston Independent School District's Kinder High School for the Performing and Visual Arts (Kinder HSPVA). HSPVA Friends' mission is to cultivate support for Kinder HSPVA in order to enhance educational, professional, and artistic opportunities for current and future students.

Federal income tax status – HSPVA Friends is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1).

Cash concentration – Bank deposits exceed the federally insured limit per depositor per institution.

Contributions receivable that are due within one year are reported at net realizable value. Contributions receivable that are expected to be collected in future years are reported at the present value of the expected future cash flows.

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.

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 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 HSPVA Friends is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met. Funding received before conditions are met is reported as refundable advances.

Program fees are recognized at the point in time that services are provided and are primarily generated by performance tickets and student workshops. Revenue is recognized at the amount of consideration expected to be received. There are no contract assets or liabilities resulting from program fees at July 31, 2021, 2020 or 2019.

Special events revenue includes elements of both contributions and exchange transactions and are recognized when an event occurs. Direct donor benefit costs represent the costs of goods and services provided to event attendees. Amounts received in advance are reported as deferred revenue.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and 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.

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.

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 July 31 comprise the following:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 3,134,407	\$ 3,328,987
Contributions receivable		8,500
Investments	<u>1,350,003</u>	<u>1,109,324</u>
Total financial assets	4,484,410	4,446,811
Less financial assets not available for general expenditure:		
Endowment investments	1,238,427	1,010,932
Cash restricted or designated for downtown campus	<u>2,330,611</u>	<u>2,328,904</u>
Total financial assets available for general expenditure	<u>\$ 915,372</u>	<u>\$ 1,106,975</u>

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

HSPVA Friends received a Paycheck Protection Program (PPP) loan of \$36,948 in April 2020. HSPVA Friends received notice of forgiveness in March 2021 and has recognized the proceeds as restricted contribution revenue in these financial statements. In April 2021, HSPVA Friends received a second PPP loan of \$36,948. Management expects this loan to also be forgiven. Any amounts not forgiven will bear interest at 1.0% and may be repaid over 5 years.

NOTE 3 – CASH RESTRICTED FOR DOWNTOWN CAMPUS

As governed by the tri-party agreement dated October 13, 2016, HSPVA Friends is stewarding a grant of \$7,500,000 from the Kinder Foundation that is restricted for capital needs at the Houston Independent School District's downtown campus of Kinder HSPVA. As of July 31, 2021, net assets with donor restrictions of \$1,922,417 remains unreleased from this grant and will be released as capital needs are met.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that 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 July 31, 2021 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Domestic large-cap	\$ 302,232			\$ 302,232
Foreign large-cap	229,151			229,151
Foreign small-cap	77,086			77,086
Domestic small/mid-cap	74,438			74,438
Bond mutual funds:				
Intermediate term	385,478			385,478
High yield	134,092			134,092
Global real estate mutual fund	69,386			69,386
Exchange-traded funds:				
Commodities	55,429			55,429
Inflation-protected bond	12,966			12,966
Money market mutual funds	9,745			9,745
Total assets measured at fair value	<u>\$ 1,350,003</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,350,003</u>

Assets measured at fair value at July 31, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Domestic large-cap	\$ 229,966			\$ 229,966
Foreign large-cap	160,570			160,570
Foreign small-cap	25,252			25,252
Domestic small/mid-cap	64,308			64,308
Bond mutual funds:				
Intermediate term	356,112			356,112
High yield	125,571			125,571
Global real estate mutual fund	56,252			56,252
Exchange-traded funds:				
Commodities	35,485			35,485
Inflation-protected bond	32,320			32,320
Money market mutual funds	23,488			23,488
Total assets measured at fair value	<u>\$ 1,109,324</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,109,324</u>

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

- *Mutual funds* are valued at the published net asset value of shares held at year end.
- *Exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while HSPVA Friends 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 – 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:		
Downtown campus	\$ 1,922,417	\$ 1,938,976
Visual arts	61,055	41,985
Scholarships	59,090	60,250
Music	50,192	71,462
Vocal	5,991	
Creative writing	<u> </u>	<u>9,962</u>
Total subject to expenditure for specified purpose	2,098,745	2,122,635
Endowments:		
Subject to spending policy and appropriation:		
Scholarship endowments	<u>1,238,427</u>	<u>1,010,932</u>
Total net assets with donor restrictions	<u>\$ 3,337,172</u>	<u>\$ 3,133,567</u>

NOTE 6 – ENDOWMENT FUNDS

HSPVA Friends has donor-restricted endowment funds that are maintained in accordance with explicit donor stipulations.

Changes in donor-restricted endowment funds are as follows:

	<u>WITH DONOR RESTRICTIONS</u>		
	<u>ACCUMULATED NET INVESTMENT RETURN</u>	<u>REQUIRED TO BE MAINTAINED IN PERPETUITY</u>	<u>TOTAL</u>
Endowment net assets, July 31, 2019	\$ 149,752	\$ 854,820	\$ 1,004,572
Contributions		4,000	4,000
Net investment return	16,481		16,481
Distributions	(14,121)		(14,121)
Endowment net assets, July 31, 2020	152,112	858,820	1,010,932
Contributions		42,571	42,571
Net investment return	217,601		217,601
Distributions	(32,677)		(32,677)
Endowment net assets, July 31, 2021	\$ 337,036	\$ 901,391	\$ 1,238,427

Endowment net assets consist of the following:

	<u>2021</u> <u>WITH DONOR</u> <u>RESTRICTIONS</u>	<u>2020</u> <u>WITH DONOR</u> <u>RESTRICTIONS</u>
Donor-restricted endowment funds:		
Donor-restricted amounts required to be maintained in perpetuity	\$ 901,391	\$ 858,820
Accumulated investment gains	337,036	152,112
Endowment net assets	\$ 1,238,427	\$ 1,010,932

The Board of Directors of HSPVA Friends 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, HSPVA Friends classifies the original value of gifts donated to the perpetual endowment as *net assets with donor restrictions* required to be maintained in perpetuity. The remaining portion of the donor-restricted endowment funds are also classified as *net assets with donor restrictions* until those amounts are appropriated for expenditure by HSPVA Friends in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, HSPVA Friends considers the duration and preservation of the funds and other resources of HSPVA Friends in making a determination to appropriate or accumulate donor-restricted endowment funds.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TUPMIFA requires HSPVA Friends to retain as a fund of perpetual duration. Deficiencies of this nature are reported in *net assets without donor restrictions*. These deficiencies result from unfavorable market fluctuations and continued appropriations for certain programs that are deemed prudent by the Board of Directors.

Return Objectives and Risk Parameters

HSPVA Friends has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, HSPVA Friends relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and investment return (interest and dividends). HSPVA Friends 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.

Spending Policy

Scholarship committees approve scholarship awards for students at Kinder HSPVA annually.

NOTE 7 – SUBSEQUENT EVENTS

On August 2, 2021, HSPVA Friends signed an office lease for one year. The total commitment is \$23,832.

Management has evaluated subsequent events through December 17, 2021, 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.
