

**World Affairs Council of
Greater Houston**

Financial Statements

December 31, 2019

World Affairs Council of Greater Houston

December 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
World Affairs Council of Greater Houston

We have audited the accompanying financial statements of the World Affairs Council of Greater Houston (a non-profit organization), which comprise the statements of assets, liabilities and net assets - modified cash basis, as of December 31, 2019 and 2018, and the related statements of support, revenue and expenses - modified cash basis, for the years then ended, and the related notes to 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the 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 assets, liabilities and net assets of the World Affairs Council of Greater Houston as of December 31, 2019 and 2018, and its support, revenue and expenses for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Pannell Kern Forster & Texas, P.C.

August 3, 2020

World Affairs Council of Greater Houston

Statements of Assets, Liabilities and Net Assets – Modified Cash Basis

	December 31,	
	2019	2018
Assets		
Cash and cash equivalents	\$ 665,579	\$ 689,781
Certificates of deposit	<u>1,157,989</u>	<u>1,032,803</u>
Total assets	<u>\$ 1,823,568</u>	<u>\$ 1,722,584</u>
Liabilities and Net Assets		
Liabilities		
Credit card liability	\$ 12,937	\$ 20,796
Payroll liabilities	<u>7,530</u>	<u>6,374</u>
Total liabilities	<u>20,467</u>	<u>27,170</u>
Net assets without donor restrictions	<u>1,803,101</u>	<u>1,695,414</u>
Total liabilities and net assets	<u>\$ 1,823,568</u>	<u>\$ 1,722,584</u>

See notes to financial statements.

World Affairs Council of Greater Houston

Statements of Support, Revenue and Expenses – Modified Cash Basis

	Year Ended December 31,	
	2019	2018
Unrestricted support and revenue		
Annual benefit	\$ 427,305	\$ 637,049
Membership income	489,768	462,225
Membership travel	561,032	614,699
Program income	403,269	179,469
Education income	77,775	93,551
Grants and gifts	5,025	21,000
Interest income	28,947	13,745
Other income	9,317	11,358
Total unrestricted support and revenue	<u>2,002,438</u>	<u>2,033,096</u>
Expenses		
Program expenses	260,272	192,370
Travel expenses	429,981	467,745
Payroll expenses	816,025	645,630
Bank fees	23,291	23,267
Development	157,806	70,330
Occupancy	93,072	101,636
Information technology	26,626	32,793
Scholarships	318	6,000
Dues and subscriptions	6,652	2,675
Insurance	9,743	21,840
Office supplies and equipment	25,581	11,728
Postage and printing	8,072	5,904
Training and conferences	5,869	2,050
Other expenses	13,351	10,764
Accounting fees	18,092	27,150
Total expenses	<u>1,894,751</u>	<u>1,621,882</u>
Increase in unrestricted net assets	107,687	411,214
Net assets, beginning of year	<u>1,695,414</u>	<u>1,284,200</u>
Net assets, end of year	<u>\$ 1,803,101</u>	<u>\$ 1,695,414</u>

See notes to financial statements.

World Affairs Council of Greater Houston

Notes to Financial Statements

December 31, 2019

Note 1 - Organization and Summary of Significant Accounting PoliciesOrganization

The World Affairs Council of Greater Houston (the "Council") was established in 1990 as a Texas non-profit corporation to educate and present educational programs on world affairs and foreign policy. The mission of the Council is to promote better understanding of the world (people, politics, economies and cultures), by enabling citizens to participate more effectively in the global community. The Council pursues this mission through the following activities:

- Building a network of globally-minded citizens and business, civic, and government leaders;
- Hosting lectures on global issues to bring policy makers and opinion leaders to Houston;
- Encouraging thoughtful discussion of the international issues and the events that shape our times;
- Supporting the work of international organizations and academic institutions throughout the Houston area; and
- Bringing Houston's voice into international policy discussion.

Council programs provide access to senior foreign government officials as well as top level policy makers, distinguished authorities and noted commentators. Through a broad range of educational lectures by noted speakers, the Council programs help put current events into perspective, fostering a broad public understanding of world affairs and the international events that affect everyone. Moreover, the Council's educational outreach program brings speakers to area high schools and provides teacher-training seminars. In addition, the Council offers international travel to small groups, exploring different locations built on their travelers' geopolitical interests.

Basis of presentation

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles ("GAAP"). Under this basis, revenues are recognized when cash is received, and expenses are recorded when paid. This basis differs from GAAP primarily because the Council has not recorded balances and the related effects on changes of net assets of promises to give, accounts receivable, contract assets, contract liabilities, accounts payable and other accrued liabilities.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Council and changes therein are classified into two categories of net assets, as applicable, and reported as follows:

Net assets without donor restrictions - net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

Net assets with donor restrictions - net assets subject to donor-imposed stipulations that specify a use for a contributed asset. When a purpose restriction or a time restriction ends, net assets with donor restrictions are released to net assets without donor restrictions and reported in the accompanying statements of support, revenues and expenses.

World Affairs Council of Greater Houston

Notes to Financial Statements

December 31, 2019

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)Cash and cash equivalents

The Council considers all unrestricted highly-liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Donated materials and services

The Council records the value of donated goods or services when there is an objective basis available to measure their value. Donated materials and equipment are reflected as contributions in the accompanying statement of assets, liabilities and net assets – modified cash basis at their estimated values at date of receipt. A substantial number of volunteers donated significant amounts of their time to the Council's program services. No amounts have been reflected in the statement for donated services as they do not meet the requirements to record.

Property and equipment

Purchased property and equipment are stated at cost, and donated assets are recorded at fair value at the date of donation. Such donations are reported as increases in net assets without restrictions unless the donor has restricted the donated asset to a specific purpose. Major additions and improvements are capitalized, while maintenance and repairs are expensed as incurred. When assets are sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Any gain or loss arising from such disposition is included as income or expense in the year of disposition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated lives for computing depreciation on office equipment is three to five years. All of the Council's assets are fully depreciated at December 31, 2019 and 2018.

Federal income tax status

The Council is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (the "Code"), except on net income derived from unrelated business activities as defined in the Code. Accordingly, the Council files as a tax exempt organization.

The Council recognizes the impact of an uncertain tax position only if the position is "more-likely-than-not" of being sustained if the position were to be challenged by a taxing authority. The preparation of the Council's various tax returns requires the use of estimates for federal and state income tax purposes. These estimates may be subjected to review by the respective taxing authorities. A revision, if any, to an estimate may result in an assessment of additional taxes, penalties and interest. At this time, a range in which the estimates may change is not quantifiable, and a change, if any, is not expected to be material. The Council accounts for interest and penalties relating to uncertain tax positions in the current period statement of support, revenues and expenses, as necessary; however there are currently no uncertain tax positions.

World Affairs Council of Greater Houston

Notes to Financial Statements

December 31, 2019

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)Contributions

Contributions received are recorded without restrictions or with restrictions depending on the existence or nature of any donor-imposed restrictions. Net assets with restrictions are reclassified to net assets without restrictions upon the passage of time or satisfaction of the restrictions. Donor restricted contributions in which the restrictions are met in the same year as received are recorded as contributions without restrictions in the accompanying statements of support, revenues and expenses.

Functional expenses

The Council allocates expenses on a functional basis among various programs and supporting activities. Expenses that can be identified with a specific program and supporting activity are allocated directly according to their natural expenditure classifications. Other expenses that are common to several functions are allocated based on various methods, including square footage and percent of time dedicated to each function.

Cash concentration and credit risk

Financial instruments that potentially subject the Council to credit risk include cash and cash equivalents. The Council maintains cash accounts primarily in federally insured financial institutions. From time to time the balances of these accounts exceed the federally insured limits; however, no losses have been incurred in connection with such cash balances.

Note 2 - Change in Accounting Principles

In August 2018, new accounting guidance was issued for not-for-profit entities. The new guidance provides additional information in evaluating whether transactions should be accounted for as contributions or as exchange transactions and whether a contribution is conditional or restricted. The amendments in this guidance require that an entity determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The amendments in this guidance are effective for fiscal years beginning after December 15, 2018. The guidance was implemented during the year ended December 31, 2019 and resulted in no adjustments or changes to disclosures.

World Affairs Council of Greater Houston

Notes to Financial Statements

December 31, 2019

Note 3 - Leases

The Council has a non-cancellable lease for office space expiring in May 2022. Total rent expense were \$93,072 and \$101,636 for the years ended December 31, 2019 and 2018, respectively.

The future minimum lease payments under non-cancelable operating leases are as follows.

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 101,636
2021	105,609
2022	<u>44,693</u>
	<u>\$ 251,938</u>

Note 4 - Functional Expense Allocation

The allocation of the Council's costs to provide and maintain its various programs, as well as provide the necessary supportive services, is as follows for the year ended December 31, 2019:

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Program expenses	\$ 260,272	\$ -	\$ -	\$ 260,272
Travel programs	429,981	-	-	429,981
Fundraising	-	-	104,823	104,823
Marketing and development	27,601	24,293	9,169	61,063
Office expense	32,279	51,628	9,239	93,146
Insurance	4,404	3,876	1,463	9,743
Communications	12,032	10,593	3,998	26,626
Occupancy	42,070	37,027	13,975	93,072
Payroll expenses	<u>365,626</u>	<u>326,985</u>	<u>123,414</u>	<u>816,025</u>
	<u>\$1,174,265</u>	<u>\$ 454,402</u>	<u>\$ 266,081</u>	<u>\$1,894,751</u>

World Affairs Council of Greater Houston

Notes to Financial Statements

December 31, 2019

Note 4 - Functional Expense Allocation (Continued)

The allocation of the Council's costs to provide and maintain its various programs, as well as provide the necessary supportive services, is as follows for the year ended December 31, 2018:

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Program expenses	\$ 192,370	\$ -	\$ -	\$ 192,370
Travel programs	467,745	-	-	467,745
Fundraising	-	-	67,867	67,867
Marketing and development	3,887	3,235	1,261	8,383
Office expense	29,695	46,234	7,689	83,618
Insurance	10,128	8,428	3,284	21,840
Communications	15,207	12,654	4,932	32,793
Occupancy	47,131	39,220	15,285	101,636
Payroll expenses	<u>297,214</u>	<u>250,710</u>	<u>97,706</u>	<u>645,630</u>
	<u>\$ 1,063,377</u>	<u>\$ 360,481</u>	<u>\$ 198,024</u>	<u>\$ 1,621,882</u>

Note 5 - Liquidity and Availability of Resources

As part of the Council's liquidity management, sufficient assets are on hand to cover up to 6 months of general expenditures. The Council's financial assets available for general expenditure within one year at December 31, 2019 and 2018 includes cash and cash equivalents of \$665,579 and \$689,781, respectively. To help manage unanticipated liquidity needs, the Council places certain amounts of excess cash in certificates of deposit with terms ranging from 12 to 24 months. These amounts are available for use as the certificates of deposit mature, with Board of Directors' approval. Certificates of deposit were \$1,157,989 and \$1,032,803 as of December 31, 2019 and 2018, respectively.

The Council manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

Note 6 - Subsequent Events

In April 2020, the Company applied for and received a \$167,617 loan issued pursuant to the Paycheck Protection Program under the CARES Act. The loan bears interest at 1% per annum and has required principal and interest payments commencing in the fourth quarter of 2020 with a maturity of April 27, 2022. The loan proceeds will be used to fund permitted expenses and as such is expected to be forgiven under the CARES Act.

Management has evaluated subsequent events through August 3, 2020, which was the date the financial statements were available for issuance. As the result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen that have the potential to negatively impact the Council's operations. However, the financial impact and duration cannot be reasonably estimated at this time.