

HOURLY CHILDREN, INC.
FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

HOUR CHILDREN, INC.
JUNE 30, 2020 AND 2019

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Independent Auditor's Report

To the Board of Directors
Hour Children, Inc.

I have audited the accompanying financial statements of Hour Children, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2020 and 2019, the related statements of activities, functional expenses, and 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

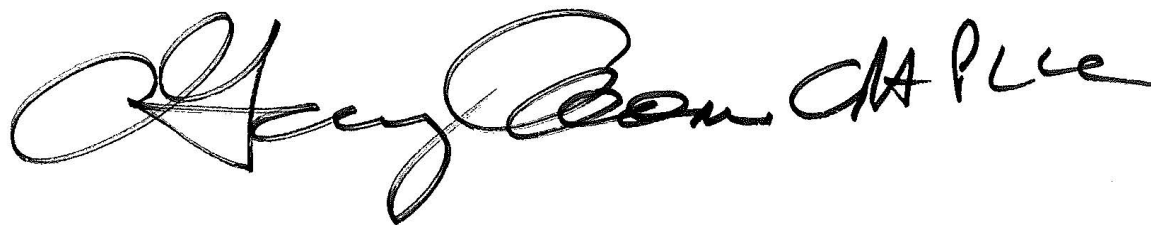
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of significant accounting estimates made by management, and evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hour Children, Inc. as of June 30, 2020 and 2019, 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.

A handwritten signature in black ink, reading "Jeffrey Ben. CPA PLLC". The signature is written in a cursive, flowing style with large loops and a long horizontal stroke at the end.

New York, New York
March 26, 2021

HOUR CHILDREN, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

A S S E T S

	<u>2020</u>	<u>2019</u>
<u>Current Assets</u>		
Cash	\$ 1,871,565	\$ 389,360
Accounts receivable	1,002,793	457,845
Due from NYS Department of Correctional Services	164,621	163,021
Inventory	126,861	88,304
Due from Hour Apartment L.P.	2,733	20,985
Prepaid expenses	<u>184,535</u>	<u>153,454</u>
 Total Current Assets	 3,353,108	 1,272,969
 Fixed assets at cost - net of accumulated depreciation of \$1,955,997 in 2020 and \$1,651,186 in 2019	 8,839,192	 9,123,316
<u>Other Assets</u>		
Investment in Hour Apartment III	822,373	822,373
Loan receivable - Hour Apartment III	500,000	500,000
Developer's fee receivable	51,938	270,000
Security deposits	48,285	48,285
Investments	<u>4,275,829</u>	<u>4,396,239</u>
 Total Other Assets	 <u>5,698,425</u>	 <u>6,036,897</u>
 TOTAL ASSETS	 <u><u>\$17,890,725</u></u>	 <u><u>\$16,433,182</u></u>

See accompanying notes to financial statements.

HOUR CHILDREN, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

LIABILITIES AND NET ASSETS

	<u>2020</u>	<u>2019</u>
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Accounts payable and accrued expense \$	340,429	\$ 333,404
Other payable	12,414	12,414
Accrued interest	10,000	10,000
Tenants' security deposits payable	2,920	2,900
Due to Hour Apartment III	<u>47,545</u>	<u>33,231</u>
Total Current Liabilities	413,308	391,949
<u>Long-Term Debt</u>		
Notes payable	<u>4,521,000</u>	<u>4,000,000</u>
Total Long-Term Debt	<u>4,521,000</u>	<u>4,000,000</u>
TOTAL LIABILITIES	4,934,308	4,391,949
<u>Net Assets</u>		
Net Assets without Donor Restrictions	12,172,236	11,816,507
Net Assets with Donor Restrictions	<u>784,181</u>	<u>224,726</u>
Total Net Assets	<u>12,956,417</u>	<u>12,041,233</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$17,890,725</u>	<u>\$16,433,182</u>

See accompanying notes to financial statements.

HOUR CHILDREN, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
<u>Net Assets Without Donor Restrictions:</u>		
Support and Revenue		
Public contributions	\$ 1,277,740	\$ 1,075,005
Government grants	1,435,497	1,251,656
Contract income	370,000	330,000
Foundation contributions	1,471,308	2,640,749
Donated services	309,936	574,998
Fundraising events	5,230	47,347
Child care program	120,824	167,013
Rental income	285,370	284,150
Thrift shop sales	376,901	537,752
Investment income	291,939	233,778
Other income	15,757	9,894
Total Support and Revenue	5,960,502	7,152,342
Expenses		
Program Services		
Program services	4,640,466	4,901,665
Total Program Services	4,640,466	4,901,665
Support Services		
Management and general	645,149	485,157
Fundraising	319,158	400,224
Total Support Services	964,307	885,381
Total Expenses	5,604,773	5,787,046
Changes in net assets without donor restrictions	355,729	1,365,296
<u>Net Assets With Donor Restrictions:</u>		
Net assets released from restrictions	(116,836)	(1,297,806)
Contributions	676,291	169,000
Changes in net assets with donor restrictions	559,455	(1,128,806)
Changes in Net Assets	915,184	236,490
Net Assets - Beginning of Year	12,041,233	11,804,743
Net Assets - End of Year	\$12,956,417	\$12,041,233

See accompanying notes to financial statements.

HOOR CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services	Support Services			Total Expenses
		Management and general	Fund Raising	Total Supporting	
Salaries	\$ 2,074,610	\$ 334,917	\$ 204,379	\$ 539,296	\$ 2,613,906
Payroll taxes	184,165	26,091	16,879	42,970	227,135
Employee benefits	109,681	54,493	7,992	62,485	172,166
Stipends	132,195	104,690	28,379	133,069	265,264
Rent	375,298	11,617	-	11,617	386,915
Insurance	216,293	6,220	1,851	8,071	224,364
Utilities	79,587	6,670	-	6,670	86,257
Telephone	14,286	873	617	1,490	15,776
Repairs and maintenance	164,243	177	-	177	164,420
Equipment rental	8,670	2,551	-	2,551	11,221
Office expense and supplies	97,290	21,285	25,574	46,859	144,149
Payroll processing fees	8,930	1,383	929	2,312	11,242
Professional fees	79,975	27,225	82,592	109,817	189,792
Donated services	-	8,250	-	8,250	8,250
Donated legal services	301,686	-	-	-	301,686
Client assistance	128,045	900	-	900	128,945
Parties and outings	13,858	-	-	-	13,858
Client food	136,523	4,408	-	4,408	140,931
Advertising	-	-	133	133	133
Fundraising event	-	-	(60,654)	(60,654)	(60,654)
Dues and subscriptions	3,700	13,555	6,186	19,741	23,441
Postage	2,320	2,914	4,301	7,215	9,535
Auto and van expense	30,684	-	-	-	30,684
Professional development	1,991	700	-	700	2,691
Travel and transportation	31,130	196	-	196	31,326
Taxes, licenses and fees	5,637	2,935	-	2,935	8,572
Bank charges	7,293	1,079	-	1,079	8,372
Interest	120,000	-	-	-	120,000
Investment fees	-	11,945	-	11,945	11,945
Miscellaneous	7,565	75	-	75	7,640
Depreciation	304,811	-	-	-	304,811
	<u>\$ 4,640,466</u>	<u>\$ 645,149</u>	<u>\$ 319,158</u>	<u>\$ 964,307</u>	<u>\$ 5,604,773</u>

See independent auditor's report

HOURL CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Support Services			Total Expenses
		Management and general	Fund Raising	Total Supporting	
Salaries	\$ 2,071,906	\$ 188,199	\$ 129,219	\$ 317,418	\$ 2,389,324
Payroll taxes	183,746	20,636	10,025	30,661	214,407
Employee benefits	134,653	22,161	10,295	32,456	167,109
Stipends	202,461	61,265	28,380	89,645	292,106
Rent	392,052	1,070	-	1,070	393,122
Insurance	113,839	69,648	851	70,499	184,338
Utilities	113,234	-	-	-	113,234
Telephone	15,211	1,234	821	2,055	17,266
Repairs and maintenance	109,711	1,515	-	1,515	111,226
Equipment rental	9,276	3,026	-	3,026	12,302
Office expense and supplies	93,237	12,805	18,717	31,522	124,759
Payroll processing fees	8,589	548	522	1,070	9,659
Professional fees	129,550	37,943	106,900	144,843	274,393
Donated services	-	12,000	-	12,000	12,000
Donated legal services	562,998	-	-	-	562,998
Client assistance	104,430	-	-	-	104,430
Parties and outings	19,470	9,158	300	9,458	28,928
Client food	124,363	2,150	-	2,150	126,513
Advertising	1,142	90	45	135	1,277
Fundraising event	-	-	82,217	82,217	82,217
Dues and subscriptions	4,314	19,081	6,144	25,225	29,539
Postage	4,252	2,315	5,428	7,743	11,995
Auto and van expense	27,923	619	-	619	28,542
Professional development	10,720	1,615	252	1,867	12,587
Travel and transportation	41,094	3,390	108	3,498	44,592
Taxes, licenses and fees	4,505	2,129	-	2,129	6,634
Bank charges	9,280	387	-	387	9,667
Interest	120,000	-	-	-	120,000
Investment fees	-	12,173	-	12,173	12,173
Miscellaneous	1,392	-	-	-	1,392
Depreciation	288,317	-	-	-	288,317
	<u>\$ 4,901,665</u>	<u>\$ 485,157</u>	<u>\$ 400,224</u>	<u>\$ 885,381</u>	<u>\$ 5,787,046</u>

See independent auditor's report

HOUR CHILDREN, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
<u>Cash flows from operating activities:</u>		
Changes in net assets	\$ 915,184	\$ 236,490
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	304,811	288,317
Unrealized gain on investment	(208,622)	(64,066)
Realized loss (gain) on investment	29,761	(33,796)
Donated investments	(3,034)	(3,039)
(Increase) Decrease in operating assets:		
Accounts receivable	(544,948)	(226,254)
Due from NYS Department of Correctional services	(1,600)	(27,659)
Due from Hour Apartment L.P.	18,252	46,075
Due from Hour Apartment III	-	170,690
Inventory	(38,557)	(5,144)
Prepaid expenses	(31,081)	(29,808)
Developer's fee receivable	218,062	-
Security deposits	-	13,670
Increase (Decrease) in operating liabilities:		
Accounts payable and accrued expenses	7,025	64,463
Security deposits	20	-
Due to Hour Apartment III	14,314	33,231
Deferred revenue	-	(22,500)
Total adjustments	(235,597)	204,180
Net cash provided by operating activities	679,587	440,670
<u>Cash flows from investing activities:</u>		
Purchase of fixed assets	(20,687)	(1,161,532)
Increase in Investment in Hour Apartment III	-	(273,584)
Proceeds from sale of investments	2,629,442	1,467,206
Purchases of investments	(2,290,854)	(1,803,184)
Net cash provided by (used in) investing activities	317,901	(1,771,094)

See accompanying notes to financial statements.

HOUR CHILDREN, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019
(CONTINUED)

	<u>2020</u>	<u>2019</u>
<u>Cash flows from financing activities:</u>		
Loan proceeds	<u>521,000</u>	<u>-</u>
Net cash provided by financing activities	<u>521,000</u>	<u>-</u>
Net increase (decrease) in cash and restricted cash	1,518,488	(1,330,424)
Cash and restricted cash - Beginning of Year	<u>428,289</u>	<u>1,758,713</u>
Cash and restricted cash - End of Year	<u>\$ 1,946,777</u>	<u>\$ 428,289</u>

Supplemental disclosure of cash flow information:

Cash paid during the years for interest	<u>\$ 120,000</u>	<u>\$ 120,000</u>
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See accompanying notes to financial statements.

HOURL CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 - Organization

Hour Children, Inc. ("the Corporation") was incorporated in 1995 in the state of New York. The Corporation is a 501(c)(3) non-profit corporation committed to the compassionate and loving care of children of incarcerated women. Its outreach includes support and empowerment for mothers upon reunification with their families. All persons are encouraged to live and interact with dignity and respect.

Hour Children provides transitional housing and services at five locations and permanent housing at three locations for formerly incarcerated mothers and their children. The Corporation offers intense care management to residents including counseling and job readiness, relapse prevention services, child care, an after-school program, and mentoring programs for children whose parents are incarcerated and for women upon reentry.

Hour Children's three thrift shops offer employment training to residents while providing organizational revenue and needed resources. Services to the local community include the Thrift Stores and Community Food Pantry and a teen program.

In addition, Hour Children runs the Family Service Program in Bedford Hills and Taconic Correctional Facilities which includes a Nursery Program, Children's Center, Advocacy, Parenting and Domestic Violence Programs. An Advocacy program is also run in Rose M. Singer at Rikers Island. Outreach services are provided for women on work release at Edgecombe Correctional Facility.

NOTE 2 - Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Corporation are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

HOOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

The financial statements report net assets and changes in net assets into two classes that are based upon the existence or absence of restrictions on use that are placed by their donors, as follows:

Net Assets without Donor Restrictions - Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the Corporation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and other that are entered into in the course of its operations.

Net Assets with Donor Restrictions - Net assets with donor restrictions are resources that are restricted by a donor for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Corporation must continue to use the resources in accordance with the donor's instructions.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as restricted supports that increase net assets with donor restrictions. When a restriction

HOOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Capitalization and Depreciation

Fixed assets are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives by use of the straight-line method for financial reporting purposes. The estimated service lives of the assets for depreciation purposes may be different from their actual economic useful lives. For financial statement purposes, the following estimated useful lives are used:

	<u>Estimated useful lives</u>	<u>Method</u>
Buildings and Improvements	15-40 Years	Straight-Line
Vehicles and Transportation	5 Years	Straight-Line
Furniture	7 Years	Straight-Line
Equipment	5-10 Years	Straight-Line

Impairment

The Corporation reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, by the rental property including any estimated proceeds from the eventual disposition of the real estate are less than their carrying amounts, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value.

HOOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Impairment (Continued)

The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. No impairment loss has been recognized during the years ended June 30, 2020 and 2019.

Advertising Costs

Advertising costs are charged to operations when incurred.

Donated Assets

In general, assets donated to the Corporation, such as stock, property, and equipment, are recorded as contributions at their estimated fair values at the date of donation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Inventory

Inventory consists of merchandise that is contributed by individuals to the Corporation's thrift shops and is recorded at fair value.

Investments

Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments held by Not-for-Profit Organizations*, requires that investments be reported at fair value.

OUR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

FASB ASC 820, *Fair Value Measurement and Disclosure*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurements. Valuation techniques were used to maximize the use of observable inputs and minimize the use of unobservable inputs.

Under the standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

The three levels of the fair value hierarchy under FASB ASB 820 are described as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2 inputs to the valuation methodology include: quoted prices for similar assets and liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and, inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

HOOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Government Grants

Government grants are recognized when the qualifying costs are incurred for cost-reimbursement contracts and grants or when a unit of service is provided for performance grants. Contracts from government agencies are subject to an independent audit. The audit could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Corporation's management believes that costs ultimately disallowed, if any, would not affect materially the financial position of the Corporation.

Rental Income

Rental income is recognized as it earns. Rental payments received in advance are deferred and classified as liabilities until earned or recouped.

Accounts Receivable

Accounts receivable are primarily unsecured non-interest-bearing amounts due from grantors on cost reimbursement or performance grants. Management believes that all outstanding accounts receivable are collectible in full. Therefore, no allowance for uncollectible receivables has been provided.

Income Taxes

The Corporation has been determined by the Internal Revenue Service to be exempt from Federal income taxes under section 501 (c) (3) of the Internal Revenue Code. Accordingly, no provision for Federal, New York State, and New York City income taxes is included in the financial statements.

Fair Value of Financial Instruments

The Corporation's financial instruments consist primarily of cash, accounts receivable, investments, accounts payable and debt instruments. The carrying values of cash, accounts receivable, investment, accounts payable

OUR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Fair Values of Financial Instruments (Continued)

are considered to be representative of their respective fair values. The carrying values of the Corporation's debt instruments approximate their fair values as of June 30, 2020 and 2019, based on current incremental borrowing rates for similar types of borrowing arrangements.

Adoption of Accounting Pronouncement

In November 2016, the Financial Accounting Standards Board (FASB) published Accounting Standards Update (ASU) No. 2016-18, which changes the presentation and disclosure of cash, cash equivalents and restricted cash or restricted equivalents in the statement of cash flows. The ASU requires that restricted cash and equivalents be included in the total cash and cash equivalent at the beginning and end of the period for which changes are shown in the statement of cash flows. It also requires that the face of the statement of cash flows or the notes to the financial statements present a reconciliation when cash and cash equivalents (restricted or unrestricted) are shown in more than one line on the statement of financial position. The standard does not change the definitions of restricted cash or restricted cash equivalents. Previous U.S. GAAP allowed changes in restricted cash to be shown as investing activities.

NOTE 3 - Fixed Assets

Fixed assets consist of the following:

	<u>2020</u>	<u>2019</u>
Buildings	\$ 9,390,811	\$ 9,390,811
Building improvements	929,860	929,860
Vehicles and transportation	306,146	285,459
Furniture	48,788	48,788
Equipment	<u>119,584</u>	<u>119,584</u>
	10,795,189	10,774,502
Accumulated depreciation	<u>(1,955,997)</u>	<u>(1,651,186)</u>
Net Fixed Assets	<u>\$ 8,839,192</u>	<u>\$ 9,123,316</u>

HOOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 - Donated Services

Donated services represent the estimated fair value of services provided to the Corporation. Donated services are recognized if the services received create or enhance non-financial assets or if the services received require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Such contributed services are \$309,936 in 2020 and \$574,998 in 2019 respectively.

NOTE 5 - Investments

The costs and market values of the Corporation's investments at June 30, 2020 are as follows:

	Cost	Market
Cash - Money Market	\$ 75,212	\$ 75,212
Equity Securities	1,139,905	1,726,775
Mutual Funds	2,353,177	2,473,842
TOTAL	\$ 3,568,294	\$ 4,275,829

The costs and market values of the Corporation's investments at June 30, 2019 are as follows:

	Cost	Market
Cash - Money Market	\$ 38,929	\$ 38,929
Equity Securities	1,187,882	1,587,293
Fixed Income Securities	399,422	401,764
Mutual Funds	2,276,179	2,368,253
TOTAL	\$ 3,902,412	\$ 4,396,239

The investments are maintained in an account with a brokerage firm. The account contains cash and securities. Balances are insured up to \$500,000 (with a limit of \$250,000 for cash) by the Security Investor Protection Corporation. The brokerage firm maintains additional insurance to cover any significant credit risk on all cash, cash equivalents and securities held by the broker. This insurance does not cover any loss on market value of

HR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 5 - Investments (Continued)

all cash, cash equivalents and securities held but losses due to the actions of the brokerage firm. The Corporation has not experienced any losses in such account and believes it is not exposed to any significant credit risk on cash, cash equivalents and securities.

NOTE 6 - Fair Value Measurement

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at June 30, 2020 and 2019 are as follows:

	2020	2019
Level 1 Inputs		
Government Securities	\$ -	\$ 401,764
Mutual funds	2,473,842	2,368,253
Level 2 Inputs		
Corporate Securities	1,675,955	1,535,113
Corporate Bonds	50,820	52,180
Level 3 Inputs		
Investment in Hour Apartment III	822,373	822,373
	5,022,990	5,179,683
Cash alternative - money market	75,212	38,929
	\$ 5,098,202	\$ 5,218,612

As of June 30, 2020 and 2019, the contractual maturities of all debt securities classified as government securities or corporate bonds are as follows:

	2020	2019
Maturing within one year	\$ 50,820	\$ 401,764
Maturing in 2-5 years	-	52,180
	\$ 50,820	\$ 453,944

OUR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 7 - Accounts Receivable

As of June 30, 2020 and 2019, accounts receivable consisted of as follow:

	2020	2019
Government grants receivable \$	544,465	\$ 336,764
Contract receivable	397,500	82,500
Rent receivable	20,697	9,424
Child care receivable	5,594	12,239
Contribution receivable	33,791	16,227
Other receivable	746	691
	<u>\$ 1,002,793</u>	<u>\$ 457,845</u>

NOTE 8 - Government Grants

The Corporation entered into a contract with New York State Office of Temporary and Disability Assistance (OTDA) from January 1, 2016 to December 31, 2020 to provide the formal job training program. For the years ended June 30, 2020 and 2019, the Corporation earned \$151,081 and \$162,771 respectively. As of June 30, 2020 and 2019, the Corporation had receivable of \$40,992 and \$47,696 from OTDA respectively.

The Corporation entered into a contract with NYS Department of Correctional Services to provide family services programs at Bedford Correctional Facility and Taconic Correctional Facility for the contract period from December 1, 2012 to November 30, 2016. The Corporation extended the contract to January 31, 2024. For the years ended June 30, 2020 and 2019, the Corporation earned \$620,985 and \$546,377 respectively, of which \$161,791 and \$157,040 was receivable as of June 30, 2020 and 2019.

The Corporation also entered into a contract with NYS Department of Correctional Services to run a visiting center (Hospitality center) at Bedford correctional facility. The contract was for the contract period from May 15, 2012 to June 30, 2018. The Corporation extended the contract to June 30, 2021. For the years ended June 30, 2020 and 2019, the Corporation earned \$13,677 and \$16,575 respectively, of which \$2,831 and \$5,981 was receivable as of June 30, 2020 and 2019.

HOURL CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 8 - Government Grants (Continued)

Effective September 1, 2013, the Corporation entered into a contract with New York City Department of Health and Mental Hygiene (DOHMH) to provide supportive housing and social services to the tenants of Hour Apartment House III. The Corporation renewed the contract providing the same services with DOHMH to June 30, 2022. For the years ended June 30, 2020 and 2019, the Corporation earned \$392,536 and \$399,786 respectively. As of June 30, 2020 and 2019, the Corporation had receivable of \$309,479 and \$255,593 from DOHMH respectively.

Effective July 1, 2016, the Corporation entered into a contract with New York City Department of Youth and Community Development for support of the community food pantry program. For the years ended June 30, 2020 and 2019, the Corporation earned \$13,000 and \$85,448 respectively, of which \$8,000 and \$31,899 was receivable as of June 30, 2020 and 2019.

Effective August 1, 2019, the Corporation entered into a contract with OTDA for the Empire State Supportive Housing Initiative Program. Hour Children is to provide housing support services for women re-entering the community from incarceration. The contract is through July 31, 2014. For the year ended June 30, 2020, the Corporation earned \$200,056 of which \$185,994 was receivable at June 30, 2020.

For the years ended June 30, 2020 and 2019, the government grants earned were as follows:

	<u>2020</u>	<u>2019</u>
OTDA	\$ 351,137	\$ 162,771
NYS Department of Correctional Services	634,662	562,952
DOHMH	392,536	399,786
Federal Emergency Food and Shelter Program	28,386	19,882
Child and Adult Care Food Program	15,776	20,817
NYC DYCD	<u>13,000</u>	<u>85,448</u>
	<u>\$ 1,435,497</u>	<u>\$ 1,251,656</u>

HR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 9 - Due from Hour Apartment, L.P.

The Corporation owns Hour Apartment GP Inc., which is the general partner of Hour Apartments, L.P. (Hour Apartment). Hour Apartment rehabilitated an eight unit apartment building, which was occupied in June 2005 by tenants receiving social services from the Corporation. The Corporation provided property management and social service to Hour Apartment. Total fees received in 2020 and 2019 were \$0 and \$9,000 respectively and recorded as other income. The Corporation also charges Hour Apartment for various costs that were incurred on behalf of Hour Apartment. Total costs charged in 2020 and 2019 were \$43,724 and \$40,832 respectively. As of June 30, 2020 and 2019, the amount due from Hour Apartment was \$2,733 and \$20,985 respectively.

NOTE 10 - Lease Commitments

The Corporation entered into various lease agreements for office facilities and residential facilities. The rental expense is recognized using the straight-line method under which the contractual rent increases are recognized equally over the lease term. The rental expense recorded on the straight-line method in excess of the rent billed is recognized as accrued rent. Totals of \$40,375 in 2020 and \$35,832 in 2019 represent accrued rent and are included in accounts payable and accrued expenses in the accompanying financial statements.

The Corporation also has leases on a monthly basis. The total monthly basis rents were \$30,000 for the years ended June 30, 2020 and 2019.

The total minimum rental payments required under these leases are as follows:

<u>June 30,</u>	<u>Year ended</u> <u>Amounts</u>
2021	\$ 356,196
2022	249,014
2023	196,431
2024	94,941
2025	76,798
Thereafter	<u>817,015</u>
Total	<u>\$ 1,790,395</u>

HOOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 - Hour Apartment III L.P.

In January 2009, the Corporation acquired the property that houses its general and administrative office as well as a residence for eight families and part of its thrift shop operations. The total purchase price of the property was \$610,000. The Corporation re-zoned the property in connection with the construction of a supportive housing apartment building containing 18 residential units, which are for low income families. In October 2011, a new entity, Hour Apartment House III, L.P. (the Partnership), was formed to own the supportive housing apartment building. The Partnership has been granted an allocation of low income tax credits from the New York State Division of Housing & Community Renewal (DHCR).

An affiliate of the Corporation is a general partner in the Partnership and in October 2011, the Corporation contributed the land and building that it had acquired as part of their capital contribution. The contribution was recorded at the appraisal value of \$1,100,000, which resulted in a gain of \$531,709. The limited partner is Enterprise - UIG Affordable Housing Fund LLC, which is affiliated with Enterprise Community Investment Inc.

Prior to construction of the building, the existing structure was removed in October 2011. The Partnership obtained construction and permanent financing loans from the New York State Homeless Housing and Assistance Corporation (HHAC) and from the New York City Department of Housing Preservation and Development for the total amount of \$5,365,767. The total cost of the project was \$9,407,471.

In connection with the development of Hour Apartment III, the Corporation earned a developer's fee of \$270,000. As of June 30, 2015, the total developer's fee was earned. In March 2020, the Corporation received payment of \$218,062 for developer's fee from Hour Apartment House III. The developer's fee receivable balance as of June 30, 2020 and 2019 was \$51,938 and \$270,000 respectively. The Corporation also provided assistance to furnish the apartments of Hour Apartment House III L.P. and various consulting charges of the project. The total assistance provided was \$184,980 in 2014.

HOOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 - Hour Apartment III L.P. (Continued)

In accordance with the partnership agreement, the Corporation through the affiliated general partner was required to make a capital contribution of \$548,789, which is reported as Investment in Hour Apartment III on the accompanying financial statements. The \$548,789 was contributed as of June 30, 2014. During the year ended June 30, 2019, the balance of investment in Hour Apartment III was increased to reflect additional construction cost overruns that the Corporation had to fund. As of June 30, 2020 and 2019, the balance of investment in Hour Apartment III was \$822,373. Additionally the Corporation was required to lend an additional \$500,000.

The Corporation provides property management to Hour Apartment III. Total fees received in 2020 and 2019 were \$15,115 and \$0 respectively, which were recorded as other income. The Corporation also charges Hour Apartment III for various operating costs that were incurred on behalf of Hour Apartment III. Total costs charged in 2020 and 2019 were \$84,100 and \$107,765 respectively. The Corporation provides a rent subsidy assistance to Hour Apartment III in accordance with the contract with DOHMH. For the years ended June 30, 2020 and 2019, the rent subsidy assistance was \$84,560, which was included in client assistance.

As of June 30, 2020, due to Hour Apartment III was \$47,545. As of June 30, 2019, due from Hour Apartment III was \$33,231.

NOTE 12 - Concentration of Risk

The Corporation maintains cash balances in financial institutions with balances that, at times, may exceed federally insured limit of \$250,000. Cash exceeding this limit totaled \$1,460,134 and \$0 at June 30, 2020 and June 30, 2019 respectively.

NOTE 13 - Residential Facility - Corona, New York

In June 2009, the Corporation purchased a residential facility in Corona, New York. The total purchase price was approximately \$808,000. The property was planned as

HOOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 13 - Residential Facility - Corona, New York (Continued)

a residence for 16 client women and their children. The Corporation incurred refurbishing costs in the amount of \$1,237,000, which has been capitalized and included in fixed assets in the accompanying financial statements.

NOTE 14 - Net Assets With Donor Restrictions

The Corporation received grants in connection with programs to be performed in the following year of which receipts were included in net assets with donor restrictions in the accompanying financial statements. Net assets with donor restrictions as of June 30, 2020 and 2019 consist of the receipts of:

	<u>2020</u>	<u>2019</u>
Sills Family Foundation	\$ -	\$ 25,000
The Tow Foundation	-	25,000
Viking Foundation	19,702	-
Tiger Foundation	-	39,000
Porticus North America Foundation	36,090	36,090
Elmezzi Foundation	30,000	-
Wilson Sheehan Foundation	-	24,636
Maldari Foundation	14,583	-
Helen Wolk Foundation	6,800	10,000
NY Community Trust	71,176	-
Dunn Development Corp.	50,000	50,000
Boston Foundation	25,000	-
Mother Cabrini Health Foundation	439,910	-
Wasily Foundation	50,000	-
Other	<u>40,920</u>	<u>15,000</u>
Total	<u>\$ 784,181</u>	<u>\$ 224,726</u>

NOTE 15 - Functional Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services in a reasonable ratio determined by management.

HOOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 16 - Retirement Plan

Effective October 1, 2015, the Corporation adopted a 401(k) retirement plan, which permits eligible employees to make salary deduction contributions. Effective November 1, 2018, the Corporation amended the retirement plan and began discretionary employer match contributions. The employer match contribution was up to 2% of the salary of participating employees. During the years ended June 30, 2020 and 2019, the Corporation made matching contributions of \$34,944 and \$17,164 for the eligible employees.

NOTE 17 - Notes Payable

In July 2017, the Corporation acquired a building in Long Island City for \$5,000,000, which will be used for social programs. In connection with the acquisition, the Corporation issued a seller note for \$4,000,000 to complete the acquisition. The note bears an interest rate of 3% per annum and starting July 17, 2017 requires only monthly interest payments of \$10,000. The interest expense for the years ended June 30, 2020 and 2019 was \$120,000. As of June 30, 2020 and 2019, the balance of the note payable is \$4,000,000. The entire principal is due on July 18, 2021 (maturity date).

In May 2020, the Corporation borrowed \$521,000 under the Small Business Administration Payroll Protection Program. Under this program, the loan may be forgiven if certain payroll and non-payroll costs are spent in accordance with the loan. The Corporation believes that the loan will be forgiven.

A summary of the 2020 and 2019 notes payable is as follow:

	2020	2019
Building acquisition		
loan	\$ 4,000,000	\$ 4,000,000
SBA PPP loan	521,000	-
	\$ 4,521,000	\$ 4,000,000

HOOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 18 - Contract Income

The Corporation entered into a subcontract agreement with Osbourne Treatment Service, Inc. (Osbourne), who has a contract with the City of New York acting through its Mayor's office of Criminal Justice, for the contract period from July 1, 2017 to June 30, 2020. The Corporation agreed to support diversion for women facing detention or incarceration by providing traditional housing services. For the years ended June 30, 2020 and 2019, the Corporation earned \$370,000 and \$330,000 respectively. As of June 30, 2020 and 2019, the Corporation had a receivable of \$397,500 and \$82,500, respectively, from Osbourne.

NOTE 19 - Cash and Restricted Cash

The balances in cash and restricted cash as reflected in the statements of cash flows consist of the following:

	2020	2019	
Cash	\$ 1,871,565	\$ 389,360	
Investments	75,212	38,929	
	\$ 1,946,777	\$ 428,289	

The amounts included in investments represent cash portions of the investments. The 2019 statement of cash flows has been restated to reflect the changes in accordance with ASU No. 2016-18.

NOTE 20 - Liquidity

At June 30, 2020, the Corporation has \$3,165,840 of liquid assets, consisting of cash of \$1,871,565 and accounts receivable of \$1,167,414 and inventory of \$126,861 available to meet needs for general expenditures. None of the financial assets are subject to donor or other contractual restrictions. Accordingly, all such funds are available to meet the cash needs of the Corporation in the next 12 months.

In addition, the Corporation maintains funds in investments. Such funds are not considered by the Corporation to have donor restrictions.

HOOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 20 - Liquidity (Continued)

The Corporation manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due. Cash needs of the Corporation are expected to be met on a monthly basis from the rents of project units. In general, the Corporation maintains sufficient financial assets on hand to meet 30 days worth of normal operating expenses.

NOTE 21 - Coronavirus Pandemic

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. The Corporation's operations have continued, with the exception of the thrift stores and administrative offices, which were both closed for a period of time. Services provided under certain contracts had to be curtailed or eliminated altogether. Future potential impacts may include disruptions or restrictions on employees' ability to work or the tenant's ability to pay the required monthly rent. Changes to the operating environment may increase operating costs. The future effects of these issues are unknown.

NOTE 22 - Subsequent Events

Management has evaluated subsequent events or transactions occurring through March 26, 2021, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.