

**Houston Area Women's Center and
HAWC ESH LLC**

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2023 and 2022

Houston Area Women’s Center and HAWC ESH LLC

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Independent Auditors' Report

To the Board of Directors of
Houston Area Women's Center:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Houston Area Women's Center and HAWC ESH LLC (collectively HAWC), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of HAWC as of December 31, 2023 and 2022, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 HAWC 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 HAWC'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 and *Government 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 and *Government 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 HAWC'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 HAWC'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.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2024 on our consideration of HAWC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HAWC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HAWC's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Blazek & Vetterling". The signature is written in a cursive, flowing style.

June 28, 2024

Houston Area Women’s Center and HAWC ESH LLC

Consolidated Statements of Financial Position as of December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 8,907,296	\$ 10,639,361
Contributions receivable, net (<i>Note 3</i>):		
Operating:		
Government grants receivable	1,558,281	1,387,378
United Way allocation	133,257	133,254
Contributions receivable, other	405,647	528,894
Contributions receivable for capital project	2,091,611	2,608,029
Prepaid expenses and other assets	185,149	157,033
Investments (<i>Note 4</i>)	9,318,304	9,163,636
Property, net (<i>Note 5</i>)	<u>17,346,840</u>	<u>5,798,691</u>
TOTAL ASSETS	<u>\$ 39,946,385</u>	<u>\$ 30,416,276</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 370,808	\$ 363,640
Construction payable	2,143,164	55,180
Accrued expenses	125,061	147,822
Accrued payroll and benefits	937,593	973,516
Refundable advance – other government grants	227,925	41,929
Refundable advance – special events	55,000	48,758
Other liabilities	69,779	13,205
Note payable to City of Houston (<i>Note 7</i>)	<u>7,606,838</u>	<u> </u>
Total liabilities	<u>11,536,168</u>	<u>1,644,050</u>
Commitments and contingencies (<i>Notes 11 and 14</i>)		
Net assets:		
Without donor restrictions (<i>Note 8</i>)	18,689,581	18,744,367
With donor restrictions (<i>Notes 9 and 10</i>)	<u>9,720,636</u>	<u>10,027,859</u>
Total net assets	<u>28,410,217</u>	<u>28,772,226</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 39,946,385</u>	<u>\$ 30,416,276</u>

See accompanying notes to consolidated financial statements.

Houston Area Women's Center and HAWC ESH LLC

Consolidated Statement of Activities for the year ended December 31, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants <i>(Note 11)</i>		\$ 7,151,053	\$ 7,151,053
Nonfinancial assets <i>(Note 12)</i>	\$ 438,055		438,055
Cash and other financial assets	2,701,331	2,134,345	4,835,676
Special events	471,491		471,491
Direct donor benefit costs of special events	(47,431)		(47,431)
Net investment return	1,297,739	249,617	1,547,356
Other	94,895		94,895
Total revenue	<u>4,956,080</u>	<u>9,535,015</u>	<u>14,491,095</u>
Net assets released from restrictions:			
Program expenditures	8,160,155	(8,160,155)	
Capital project	1,548,829	(1,548,829)	
Expiration of time restrictions	<u>133,254</u>	<u>(133,254)</u>	
Total	<u>14,798,318</u>	<u>(307,223)</u>	<u>14,491,095</u>
EXPENSES:			
Program services	10,031,185		10,031,185
Management and general	2,704,689		2,704,689
Capital campaign	1,484,740		1,484,740
Fundraising	<u>632,490</u>		<u>632,490</u>
Total expenses	<u>14,853,104</u>		<u>14,853,104</u>
CHANGES IN NET ASSETS	(54,786)	(307,223)	(362,009)
Net assets, beginning of year	<u>18,744,367</u>	<u>10,027,859</u>	<u>28,772,226</u>
Net assets, end of year	<u>\$ 18,689,581</u>	<u>\$ 9,720,636</u>	<u>\$ 28,410,217</u>

See accompanying notes to consolidated financial statements.

Houston Area Women's Center and HAWC ESH LLC

Consolidated Statement of Activities for the year ended December 31, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants <i>(Note 11)</i>		\$ 8,518,967	\$ 8,518,967
Nonfinancial assets <i>(Note 12)</i>	\$ 403,481		403,481
Cash and other financial assets	2,249,668	6,017,607	8,267,275
Special events	428,543		428,543
Direct donor benefit costs of special events	(21,292)		(21,292)
Net investment return	(1,137,598)	(251,853)	(1,389,451)
Gain on sale of property	11,576,426		11,576,426
Other	58,343		58,343
	<u>13,557,571</u>	<u>14,284,721</u>	<u>27,842,292</u>
Total revenue			
Net assets released from restrictions:			
Program expenditures	9,668,259	(9,668,259)	
Capital project	1,305,252	(1,305,252)	
Expiration of time restrictions	521,791	(521,791)	
	<u>25,052,873</u>	<u>2,789,419</u>	<u>27,842,292</u>
Total			
EXPENSES:			
Program services	11,524,423		11,524,423
Management and general	3,854,331		3,854,331
Capital campaign	1,317,252		1,317,252
Fundraising	708,134		708,134
	<u>17,404,140</u>		<u>17,404,140</u>
Total expenses			
CHANGES IN NET ASSETS	7,648,733	2,789,419	10,438,152
Net assets, beginning of year	<u>11,095,634</u>	<u>7,238,440</u>	<u>18,334,074</u>
Net assets, end of year	<u>\$ 18,744,367</u>	<u>\$ 10,027,859</u>	<u>\$ 28,772,226</u>

See accompanying notes to consolidated financial statements.

Houston Area Women’s Center and HAWC ESH LLC

Consolidated Statement of Functional Expenses for the year ended December 31, 2023

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>CAPITAL CAMPAIGN</u>	<u>FUNDRAISING</u>	<u>TOTAL EXPENSES</u>
Salaries and related expenses	\$ 6,859,724	\$ 1,606,670	\$ 343,467	\$ 504,106	\$ 9,313,967
Professional fees and contract services	386,602	635,245	1,126,567	36,729	2,185,143
Direct assistance to individuals	1,409,313				1,409,313
Technology	133,623	231,029	6,142	38,059	408,853
Depreciation	266,911	43,344			310,255
Supplies	247,189	635	354	4,087	252,265
Repairs and maintenance	214,432	941	109	435	215,917
Telephone	184,424	21,433		7,782	213,639
Utilities	134,161				134,161
Insurance	75,000	26,258			101,258
Travel	78,004	6,002	3,136	1,577	88,719
Bad debt		51,874			51,874
Postage, printing and publications	13,563	518	1,236	8,859	24,176
Membership	10,966	452	600	360	12,378
Interest		852			852
Other	<u>17,273</u>	<u>79,436</u>	<u>3,129</u>	<u>30,496</u>	<u>130,334</u>
Total expenses	<u>\$ 10,031,185</u>	<u>\$ 2,704,689</u>	<u>\$ 1,484,740</u>	<u>\$ 632,490</u>	14,853,104
Direct donor benefit costs of special events					<u>47,431</u>
Total					<u>\$ 14,900,535</u>

See accompanying notes to consolidated financial statements.

Houston Area Women's Center and HAWC ESH LLC

Consolidated Statement of Functional Expenses for the year ended December 31, 2022

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>CAPITAL CAMPAIGN</u>	<u>FUNDRAISING</u>	<u>TOTAL EXPENSES</u>
Salaries and related expenses	\$ 7,718,871	\$ 2,036,044	\$ 556,067	\$ 500,377	\$ 10,811,359
Professional fees and contract services	405,241	1,014,135	680,136	169,316	2,268,828
Direct assistance to individuals	2,294,417				2,294,417
Technology	95,756	172,270		667	268,693
Depreciation	290,381	55,977		3,499	349,857
Supplies	126,080	6,498	3,014	599	136,191
Repairs and maintenance	214,575	93,572	20,670		328,817
Telephone	116,373	135,098			251,471
Utilities	107,379	36,352			143,731
Insurance	80,470	29,639			110,109
Travel	37,876	5,442	838	710	44,866
Bad debt		55,283			55,283
Postage, printing and publications	4,459	6,062	463	12,888	23,872
Membership	5,218	4,192		515	9,925
Interest		103,847			103,847
Other	<u>27,327</u>	<u>99,920</u>	<u>56,064</u>	<u>19,563</u>	<u>202,874</u>
Total expenses	<u>\$ 11,524,423</u>	<u>\$ 3,854,331</u>	<u>\$ 1,317,252</u>	<u>\$ 708,134</u>	17,404,140
Direct donor benefit costs of special events					<u>21,292</u>
Total					<u>\$ 17,425,432</u>

See accompanying notes to consolidated financial statements.

Houston Area Women’s Center and HAWC ESH LLC

Consolidated Statements of Cash Flows for the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (362,000)	\$ 10,438,152
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	310,255	349,857
Gain on disposal of property		(11,576,426)
Donated securities for capital project		(21,242)
Donated property	(52,185)	
Realized and unrealized (gain) loss on investments	(1,049,827)	1,504,437
Contributions restricted for capital project	(1,089,133)	(4,945,508)
Bad debt expense	51,874	55,283
Changes in operating assets and liabilities:		
Operating contributions receivable	(99,542)	706,529
Prepaid expenses and other assets	(28,116)	(107,434)
Accounts payable	7,168	149,971
Accrued expenses and accrued payroll and benefits	(58,684)	58,056
Refundable advance – other government grants	185,996	(39,618)
Refundable advance – special events	6,242	22,915
Other liabilities	56,574	(22,637)
Escrow deposit		(500,000)
Net cash used by operating activities	<u>(2,121,378)</u>	<u>(3,927,665)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(9,718,235)	(741,680)
Proceeds from sale of property		12,557,712
Change in cash and money market mutual funds held in investments	(544,117)	287,452
Purchases of investments	(5,736,260)	(4,188,304)
Proceeds from sale of investments	<u>7,175,536</u>	<u>5,104,674</u>
Net cash provided (used) by investing activities	<u>(8,823,076)</u>	<u>13,019,854</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on line of credit		(7,055,645)
Proceeds from note payable to City of Houston	7,606,838	4,698,247
Proceeds from contributions restricted for capital project	<u>1,605,551</u>	<u>3,254,278</u>
Net cash provided by financing activities	<u>9,212,389</u>	<u>896,880</u>
NET CHANGE IN CASH	(1,732,065)	9,989,069
Cash, beginning of year	<u>10,639,361</u>	<u>650,292</u>
Cash, end of year	<u>\$ 8,907,296</u>	<u>\$ 10,639,361</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$852	\$103,847

See accompanying notes to consolidated financial statements.

Houston Area Women’s Center and HAWC ESH LLC

Notes to Consolidated Financial Statements for the years ended December 31, 2023 and 2022

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston Area Women’s Center (the Center) helps individuals affected by domestic and sexual violence in their efforts to move their lives forward. The Center provides shelter, counseling and advocacy to support them in building lives free from the effects of violence. The Center also seeks social change to end domestic and sexual violence through community awareness and education. All services are confidential.

In 2022, HAWC ESH LLC (the LLC) was organized as a Texas limited liability company to develop, finance, own, and operate a temporary emergency supportive housing property located in Houston, Texas. The Center is the sole member of the LLC.

Basis of consolidation – These financial statements include the assets, liabilities, net assets, activities, and cash flows of Houston Area Women’s Center and HAWC ESH LLC (collectively HAWC). All balances and transactions between the consolidated entities have been eliminated.

HAWC provides services in the following programs:

Program services include a continuum of support services including shelter, counseling, and 24-hour hotline services to survivors of domestic and sexual violence, their family and friends, and the community at large. All services are provided free of charge and are provided in English and Spanish. All other languages are accommodated, including sign language, through translation services.

Shelter and Support Services provides a 120-bed shelter and support services, for up to ninety days, to adult women and women with children who are domestic and sexual violence survivors.

- Shelter services include meeting basic daily needs, such as clothing, transportation, meals, and a safe place to stay.
- Support services include counseling, advocacy, case management, mentoring and parenting education, and a monthly legal clinic.
- The on-site career development program includes career or vocational counseling, educational services, access to ESL and GED tutoring, employment assistance, and life skills classes.
- Services for families include on-site daycare, an on-site Early Childhood Center for infants and children (ages 6 weeks to 5 years), on-site HISD school (kindergarten through 5th grade), and enrichment services, including on-site after-school and summer programs.

Non-Residential Services provide services at the Education and Counseling building for adult and child survivors of domestic and sexual violence, and their non-offending family members. Non-Residential Services consist of Hotline Services, Counseling and Advocacy Services, Housing Services, Children’s Court Services and Outreach Counseling programs.

- Hotline Services provide crisis intervention, emotional support, information, and referrals to survivors of domestic and sexual violence through two 24-hour hotlines. The hotlines also oversee the hospital accompaniment program that dispatches an advocate to hospital emergency rooms to provide crisis intervention and advocacy.
- Counseling and Advocacy Services provide individual and group counseling for survivors of domestic and sexual violence and their families and friends. Counselors advocate for clients who are trying to navigate social services and help complete Crime Victims Compensation applications. Counselors also provide expert testimony in both civil and criminal cases.
- Housing Services provide housing options and client advocacy for both shelter and non-residential clients. Housing advocacy assesses clients’ housing needs and provides them with appropriate information and referrals, self-sufficiency planning workshops, tenant education sessions, access to

- transitional housing, and short-term and long-term rental/utility assistance. Client advocacy provides case management for housing clients and informs clients on legal rights and options, protective orders, and other legal services. A legal clinic is conducted for non-residential clients on a quarterly basis.
- Children’s Court Services provide education, support, and witness preparation to children who are witnesses and/or victims of a violent crime and their non-offending families. Court advocates also provide court accompaniment to the children and their families once they are involved in the criminal court system.
 - Outreach Counseling provides community-based counseling services for African-American, Hispanic, and disabled survivors of domestic and/or sexual violence. Outreach efforts include sites at health clinics and social service agencies.

Violence Prevention and Community Education provides education to community members about the dynamics of domestic and sexual violence, including the root causes, in the efforts to prevent these forms of violence.

- *Educational Programming* – The educational programming’s goal is to bring awareness to the issue of domestic and sexual violence and the dynamics of these forms of violence are focused around three distinct target groups: middle and high school youth, low-income African American adults, and Hispanic adults with low English proficiency.
- *Professional Training* – The professional training programming’s goal is to teach skill-based training to first responders within the community. These groups include medical/nursing students, child protective services, school administration within the Houston and Alief Independent School Districts, university students/faculty/staff, law enforcement, legal professional, special advocate groups, and community organizations that work primarily with low-income African American and Hispanic youth populations.
- *Primary Prevention* – Primary prevention seeks to reduce the overall likelihood that anyone will become a victim or a perpetrator by creating conditions that make violence less likely to occur. HAWC’s comprehensive approach utilizes educational seminars, training programs for professionals, and community mobilization to prevent domestic, sexual, and teen dating violence.
- *Communications* – The Communications department provides information to the public on domestic and sexual violence issues and services via website, social media, public service announcements, brochures targeting special populations, interviews in the media, and collateral materials.

Federal income tax status – The Center 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) and §170(b)(1)(A)(vi). The LLC is a disregarded entity for federal income tax purposes.

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

Contributions 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. 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.

An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and a donor-by-donor analysis of balances.

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 is reported at cost if purchased and at fair value at the date of gift if donated. Property purchases over \$1,000 are capitalized. Depreciation is computed on a straight-line basis over estimated useful lives of 3 to 30 years.

Debt issuance costs represent costs related to the issuance of the loan from City of Houston and are amortized over the term of the note payable. Accumulated amortization is \$131,232 at December 31, 2023. Unamortized debt issuance costs are reported as a direct reduction of the related debt.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service unless the donor also has placed a time restriction on the use of the long-lived asset, in which case the release occurs over the term of the time restriction. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from a government agency or donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional grants and contributions are subject to one or more barriers that must be overcome before HAWC is entitled to receive or retain funding. Conditional grants and contributions are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as a refundable advance.

Contributed nonfinancial assets are recognized at fair value 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 events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events revenue is recognized when the event occurs. Direct donor benefit costs represent the cost of goods and services provided to attendees of the special events. Amounts received for future events represent conditional contributions and are reported as a refundable advance.

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 volunteer 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. Depreciation, utilities, insurance, telephone, repairs and maintenance are allocated based on usage of related facilities.

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 reported as 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 December 31 comprise the following:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash	\$ 8,907,296	\$ 10,639,361
Contributions receivable, net	4,189,696	4,657,555
Other receivables	56,575	78,937
Investments	<u>9,318,304</u>	<u>9,163,636</u>
Total financial assets	22,471,871	24,539,489
Less financial assets not available for general expenditure:		
Contributions receivable for capital project, net	(2,091,611)	(2,608,029)
Cash restricted and investments for capital project	(1,998,249)	(3,750,312)
Board-designated investments less budgeted \$236,080 and \$237,252 appropriation in 2023 and 2022, respectively	(5,097,019)	(5,294,682)
Endowment investments	<u>(1,785,085)</u>	<u>(1,535,468)</u>
Total financial assets available for general expenditure	<u>\$ 11,499,907</u>	<u>\$ 11,350,998</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, HAWC considers all expenditures related to providing shelter, counseling and advocacy services, to be general expenditures. HAWC regularly monitors liquidity required to meet its operating needs and other contractual commitments, while striving to maximize the investment of available funds. HAWC's Board of Directors has designated a portion of its resources for board-designated investments. These funds are primarily invested in mutual funds for long-term appreciation, but remain available to be spent at the Board of Directors' discretion. HAWC also has a line of credit that can be drawn upon to meet liquidity needs.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	<u>2023</u>	<u>2022</u>
Contributions receivable	\$ 4,432,566	\$ 5,006,647
Allowance for uncollectible contributions	(199,847)	(237,000)
Discount to net present value at rate of 4.22%	<u>(43,923)</u>	<u>(112,092)</u>
Contributions receivable, net	4,188,796	4,657,555
Less: Contributions receivable for capital project, net	<u>(2,091,611)</u>	<u>(2,608,029)</u>
Operating contributions receivable, net	<u>\$ 2,097,185</u>	<u>\$ 2,049,526</u>

Contributions receivable at December 31, 2023 are expected to be collected as follows:

Receivable in less than one year	\$ 3,700,899
Receivable in one to five years	<u>731,667</u>
Total contributions receivable	<u>\$ 4,432,566</u>

At December 31, 2023, HAWC has approximately \$15,583,000 of conditional contributions from various government agencies, which have not been recognized in the accompanying financial statements because the conditions have not been met. HAWC will recognize these grants as qualifying grant expenditures are incurred

and/or performance requirements are met. HAWC is party to other government awards for which the award amount is not specified by the grantor.

At December 31, 2023, HAWC also has a \$533,013 conditional contribution from the United Way of Greater Houston to be used in providing program services from April 1, 2024 to March 31, 2025. The amount is conditioned upon performance and available resources. HAWC will recognize the contribution when the conditions are met.

At December 31, 2023, 50% of non-governmental contributions receivable were due from four donors. At December 31, 2022, 67% of non-governmental contributions receivable were due from five donors. In 2023, approximately 24% of contributions recognized were from three donors. In 2022, approximately 51% of contributions recognized were from nine donors.

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 HAWC 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 HAWC’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2023 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stock:				
Information technology	\$ 707,736			\$ 707,736
Consumer discretionary	396,030			396,030
Healthcare	362,997			362,997
Financials	337,897			337,897
Industrials	284,195			284,195
Communications	168,127			168,127
Consumer staples	166,947			166,947
Real estate	51,218			51,218
Materials	<u>37,238</u>			<u>37,238</u>
Total common stock	2,512,385			2,512,385
Money market mutual funds	1,777,422			1,777,422
Large cap equity mutual fund	1,766,729			1,766,729
Corporate bonds		\$ 1,568,436		1,568,436
Intermediate-term bond mutual fund	1,553,310			1,553,310
Certificates of deposit – negotiable		<u>140,022</u>		<u>140,022</u>
Total assets measured at fair value	<u>\$ 7,609,846</u>	<u>\$ 1,708,458</u>	<u>\$ 0</u>	<u>\$ 9,318,304</u>

Assets measured at fair value at December 31, 2022 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stock:				
Information technology	\$ 239,649			\$ 239,649
Consumer discretionary	171,216			171,216
Healthcare	298,129			298,129
Financials	102,574			102,574
Industrials	95,105			95,105
Communications	125,786			125,786
Consumer staples	335,902			335,902
Real estate	35,516			35,516
Materials	<u>46,018</u>			<u>46,018</u>
Total common stock	1,449,895			1,449,895
Money market mutual funds	1,233,305			1,233,305
Large cap equity mutual fund	2,102,947			2,102,947
Corporate bonds		\$ 2,046,232		2,046,232
Exchange-traded funds	1,139,445			1,139,445
Intermediate-term bond mutual fund	956,010			956,010
Certificates of deposit – negotiable		<u>235,802</u>		<u>235,802</u>
Total assets measured at fair value	<u>\$ 6,881,602</u>	<u>\$ 2,282,034</u>	<u>\$ 0</u>	<u>\$ 9,163,636</u>

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

- *Common stock* and *exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the reported net asset value.
- *Corporate bonds* and *certificates of deposit – negotiable* 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.

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 HAWC 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

Property consists of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 1,905,383	\$ 1,905,383
Building and improvements	6,060,576	6,060,576
Furniture and equipment	829,873	674,219
Construction in progress	<u>13,466,198</u>	<u>1,831,359</u>
Total property, at cost	22,262,030	10,471,537
Accumulated depreciation	<u>(4,915,190)</u>	<u>(4,672,846)</u>
Property, net	<u>\$ 17,346,840</u>	<u>\$ 5,798,691</u>

NOTE 6 – LINE OF CREDIT

In August 2022, HAWC entered into a loan agreement with a bank for a revolving LOC with the aggregate amount not to exceed \$7,360,000, secured by its investment accounts. Under authority of the Board of Directors, HAWC may borrow from the LOC to cover operating shortfalls that can be repaid within 90 to 120 days. Amounts borrowed under the LOC bear interest at the prime rate plus 0.50% (8% at December 31, 2023). Interest only is due monthly until August 8, 2025. Principal and interest shall be due monthly beginning on September 8, 2025 in the amount equal to the quotient of the outstanding principal balance divided by 264, with remaining unpaid principal and accrued interest due on the maturity date of August 8, 2032. There is no balance outstanding at December 31, 2023 and 2022.

In August 2022, HAWC also entered into a loan agreement with a bank for a non-revolving loan with an aggregate amount not to exceed \$10,800,000 to finance capital expenditures related to the new Emergency Supportive Housing project. The loan is secured by its capital campaign pledges, deposit account for the capital campaign, and investment accounts. Amounts borrowed under the loan bear interest at the Ameribor Term-30 rate plus 1.9% (7.26% at December 31, 2023). Interest only is due monthly until August 8, 2025. Principal and interest shall be due monthly beginning on September 8, 2025 in the amount equal to the quotient of the outstanding principal balance divided by 264, with remaining unpaid principal and accrued interest due on maturity date of August 8, 2032. There is no balance outstanding at December 31, 2023 and 2022.

NOTE 7 – NOTE PAYABLE TO CITY OF HOUSTON

In February 2023, the LLC entered into a loan agreement with the City of Houston in the maximum amount of \$15,850,000 to finance the acquisition and construction of an emergency shelter facility. The loan has a construction loan term of 2 years and a permanent loan term of 15 years commencing upon the completion of construction. The LLC commenced construction in March 2023. The loan will be forgiven at maturity if the LLC is in compliance with the terms over the life of the agreement, which requires for a period of 15 years for 100% of the units to be provided to people fleeing or attempting to flee domestic violence, dating violence, sexual assault, stalking and human trafficking, and to meet certain income requirements. HAWC is the sponsor and guarantor of the loan. The construction of the new 135-unit supportive affordable housing development project will allow HAWC to triple its current shelter capacity and expand its services.

At December 31, 2023, note payable to City of Houston consists of the following:

Note payable to City of Houston	\$ 7,738,070
Less: Unamortized debt issuance costs	<u>(131,232)</u>
Note payable to City of Houston, net	<u>\$ 7,606,838</u>

NOTE 8 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are designated as follows:

	<u>2023</u>	<u>2022</u>
Undesignated	\$ 9,475,840	\$ 9,258,306
Property, net	3,880,642	3,954,127
Board-designated reserves	<u>5,333,099</u>	<u>5,531,934</u>
Total net assets without donor restrictions	<u>\$ 18,689,581</u>	<u>\$ 18,744,367</u>

HAWC has a policy of appropriating for distribution each year an amount not to exceed 3% of the board-designated reserve funds' average fair value over the prior twelve quarters. The Executive Committee can approve any or all of the board-designated reserves to be used for any specific purpose or project it deems appropriate. In fiscal years 2023 and 2022, the Board of Directors approved an annual appropriation from the board-designated reserves of \$236,080 and \$237,252, respectively.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Capital project	\$ 7,674,824	\$ 8,134,520
Direct services	<u>127,470</u>	<u>224,617</u>
Total subject to expenditure for specified purpose	<u>7,802,294</u>	<u>8,359,137</u>
Subject to the passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	<u>133,257</u>	<u>133,254</u>
Endowments subject to spending policy and appropriation:		
Building maintenance	1,461,303	1,256,962
Direct services	307,756	264,721
Transportation	<u>16,026</u>	<u>13,785</u>
Total endowments	<u>1,785,085</u>	<u>1,535,468</u>
Total net assets with donor restrictions	<u>\$ 9,720,636</u>	<u>\$ 10,027,859</u>

NOTE 10 – ENDOWMENT FUNDS

Donor-restricted endowment funds are subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). The Board of Directors has interpreted TUPMIFA as allowing HAWC to appropriate for expenditure or accumulate as much of an endowment fund as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund was established, subject to explicit donor stipulations.

Donor-restricted endowment net assets are classified as *net assets with donor restrictions* until appropriated in accordance with spending policies and used for the stipulated purpose, if any. HAWC classifies contributions to an endowment plus any donor-stipulated accumulations as *net assets with donor restrictions* required to be maintained in perpetuity. The unappropriated investment earnings on donor-restricted endowments are classified as *net assets with donor restrictions – accumulated net investment return*. The Board of Directors has interpreted TUPMIFA as not precluding HAWC from spending below the amount required to be maintained in perpetuity subject to prudent standards.

Spending Policy

HAWC has a policy of appropriating for distribution each year an amount not to exceed 3% of the endowment fund's average fair value over the prior twelve quarters without specific Board of Directors' approval. In establishing this policy, HAWC considered the long-term expected return on the endowments.

TUPMIFA does not preclude the Board of Directors from spending below the original value of donor-restricted contributions in accordance with the prescribed standards of prudence. 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 measures. No such deficiencies existed at December 31, 2023 or 2022.

Strategies Employed for Achieving Objectives

Endowment funds are managed internally with passive investments held at an independent financial firm. The management of these investments is directed, outlined, and guided by an investment policy approved by the Board of Directors with oversight from the Finance Committee of the Board of Directors. HAWC has adopted investment 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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce annualized returns of at least 3% in excess of the Consumer Price Index over a five-year period. To satisfy its long-term rate-of-return objectives, HAWC 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). HAWC targets an asset allocation that places a greater emphasis on equity-based 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>ACCUMULATED</u>	<u>REQUIRED TO BE</u>	
	<u>NET INVESTMENT</u>	<u>MAINTAINED</u>	
	<u>RETURN</u>	<u>IN PERPETUITY</u>	<u>TOTAL</u>
Endowment net assets, December 31, 2021	\$ 1,117,428	\$ 669,893	\$ 1,787,321
Net investment return	<u>(251,853)</u>	<u> </u>	<u>(251,853)</u>
Endowment net assets, December 31, 2022	865,575	669,893	1,535,468
Net investment return	<u>249,617</u>	<u> </u>	<u>249,617</u>
Endowment net assets, December 31, 2023	<u>\$ 1,115,192</u>	<u>\$ 669,893</u>	<u>\$ 1,785,085</u>

NOTE 11 – GOVERNMENT GRANTS

HAWC is a party to agreements with government agencies. Should these agreements not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Sources of significant government grants recognized include the following:

	<u>2023</u>	<u>2022</u>
Federal government grants:		
U. S. Department of the Treasury	\$ 2,293,410	\$ 581,736
U. S. Department of Housing and Urban Development	1,825,048	3,982,591
U. S. Department of Health and Human Services	1,389,649	1,593,153
U. S. Department of Justice	672,410	1,334,271
U. S. Department of Agriculture	<u>67,606</u>	<u>75,333</u>
Total federal government grants	<u>6,248,123</u>	<u>7,567,084</u>
State and local government grants:		
Office of the Attorney General – State of Texas	553,829	561,661
Texas Health and Human Services Commission	312,472	372,883
Harris County grants	<u>36,629</u>	<u>17,339</u>
Total state and local government grants	<u>902,930</u>	<u>951,883</u>
Total government grants	<u>\$ 7,151,053</u>	<u>\$ 8,518,967</u>

HAWC receives grants from federal and state funding sources that require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by HAWC with the terms of the contracts. Management believes such disallowances, if any, would not be material to HAWC's financial position or changes in net assets.

NOTE 12 – CONTRIBUTED NONFINANCIAL ASSETS

Contributed nonfinancial assets and associated expenditures were recognized as follows:

<u>CONTRIBUTED NONFINANCIAL ASSETS</u>	<u>UTILIZED IN PROGRAMS/ACTIVITIES</u>	<u>DONOR RESTRICTIONS</u>	<u>VALUATION TECHNIQUES AND INPUTS</u>	<u>2023 REVENUE RECOGNIZED</u>	<u>2022 REVENUE RECOGNIZED</u>
Food	Program activities	None	Fair value based on average price per pound estimated by most recent Feeding America Product Valuation Survey.	\$ 179,708	\$ 168,179
Supplies	Program activities	None	Fair value at the date of receipt based on current rates for similar items.	138,438	69,307
Professional services	Administrative and fundraising activities	None	Fair value estimated based on prevailing rates for similar services.	67,724	165,995
Property	Program activities	None	Fair value at the date of receipt based on current rates for similar items.	<u>52,185</u>	<u> </u>
Total contributed nonfinancial assets				<u>\$ 438,055</u>	<u>\$ 403,481</u>

A substantial number of volunteers have contributed significant amounts of time in connection with programs for which no amount has been recorded in the financial statements because the services do not meet the criteria for recognition under generally accepted accounting principles. During 2023 and 2022, HAWC's volunteers contributed 2,275 hours and 881 hours, respectively, in connection with programs, which is not recognized in the financial statements.

NOTE 13 – EMPLOYEE BENEFIT PLAN

HAWC participates in a §401(k) plan administered by Voya Financial. Each employee is permitted to contribute up to 19% of before-tax compensation. HAWC annually matches 125% of employee contributions up to 4% of compensation. Employees are fully vested in HAWC's contributions after five years of continuous service. HAWC contributed approximately \$187,000 and \$247,000 to the plan in 2023 and 2022, respectively.

NOTE 14 – EMERGENCY SUPPORTIVE HOUSING PROJECT AND COMMITMENTS

In March 2023, the LLC entered into a construction agreement with a company for construction of an emergency shelter facility. The contract amount is \$25,425,666 as of December 31, 2023.

The Center has an agreement with a construction company for project management services in connection with the construction and development of the emergency supportive housing project, with a commitment of 2% of the total construction cost.

In January 2021, the Center entered into a development services agreement with New Hope Housing, Inc. (NHHI) with a commitment of \$500,000 for the provision of development and consulting services related to the emergency supportive housing project, assisting the project manager with certain development activities, and working with the lender selected by the Center.

In April 2021, the Center entered into an agreement with an architect to provide design and engineering services in connection with the development of the emergency supportive housing project, an architectural program for HAWC's operations and the related master plan. The commitment is \$1,450,000 for the architect to design within the maximum project cost, which is estimated to be approximately \$25 million.

As of December 31, 2023, HAWC has outstanding commitments totaling approximately \$16,668,000 related to the emergency supportive housing project.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 28, 2024, 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.
