

**Family Houston
and
Family Service Foundation of Houston**

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2023 and 2022

Family Houston and Family Service Foundation of Houston

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Independent Auditors' Report

To the Board of Directors of
Family Houston:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Family Houston and Family Service Foundation of Houston, which comprise the consolidated statements of financial position as of June 30, 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 consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Family Houston and Family Service Foundation of Houston as June 30, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Family Houston and Family Service Foundation of Houston 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 Family Houston and Family Service Foundation of Houston's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Family Houston and Family Service Foundation of Houston'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 Family Houston and Family Service Foundation of Houston'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.

Blazek & Vetterling

December 7, 2023

Family Houston and Family Service Foundation of Houston

Consolidated Statements of Financial Position as of June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 2,205,725	\$10,363,908
Program fees receivable	78,550	52,002
Prepaid expenses	166,340	95,923
Contributions receivable:		
United Way	892,572	1,083,362
Other	1,111,495	91,166
Investments (Note 3)	14,787,332	5,342,639
Property, net (Note 4)	18,318	55,693
Investments held as endowments by the Foundation (Note 3)	<u>2,917,154</u>	<u>2,749,857</u>
TOTAL ASSETS	<u>\$22,177,486</u>	<u>\$19,834,550</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 65,774	\$ 49,250
Accrued salaries and related expenses	197,674	247,717
Deferred revenue	<u>142,914</u>	<u>120,218</u>
Total liabilities	<u>406,362</u>	<u>417,185</u>
Net assets:		
Without donor restrictions (Note 4)	19,930,381	17,596,769
With donor restrictions (Notes 5 and 6)	<u>1,840,743</u>	<u>1,820,596</u>
Total net assets	<u>21,771,124</u>	<u>19,417,365</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$22,177,486</u>	<u>\$19,834,550</u>

See accompanying notes to consolidated financial statements.

Family Houston and Family Service Foundation of Houston

Consolidated Statement of Activities for the year ended June 30, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
United Way		\$ 1,207,568	\$ 1,207,568
Other contributions	\$ 2,383,462	373,000	2,756,462
Government grants		300,011	300,011
Contributed nonfinancial assets	15,057	55,223	70,280
Special event	156,211		156,211
Direct donor benefit costs from special event	(27,175)		(27,175)
Program service fees	628,443		628,443
Net investment return	1,482,939	161,705	1,644,644
Other income	8,311		8,311
Total revenue	<u>4,647,248</u>	<u>2,097,507</u>	<u>6,744,755</u>
Net assets released from restrictions:			
Expiration of time restrictions	1,397,986	(1,397,986)	
Program expenditures	679,374	(679,374)	
Total	<u>6,724,608</u>	<u>20,147</u>	<u>6,744,755</u>
EXPENSES:			
Program services:			
Mental health	1,666,281		1,666,281
Basic needs	750,750		750,750
Financial stability	606,623		606,623
Total program services	3,023,654		3,023,654
Management and general	861,858		861,858
Fundraising	505,484		505,484
Total expenses	<u>4,390,996</u>		<u>4,390,996</u>
CHANGES IN NET ASSETS	2,333,612	20,147	2,353,759
Net assets, beginning of year	<u>17,596,769</u>	<u>1,820,596</u>	<u>19,417,365</u>
Net assets, end of year	<u>\$19,930,381</u>	<u>\$ 1,840,743</u>	<u>\$21,771,124</u>

See accompanying notes to consolidated financial statements.

Family Houston and Family Service Foundation of Houston

Consolidated Statement of Activities for the year ended June 30, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
United Way		\$ 2,892,417	\$ 2,892,417
Other contributions	\$ 132,933	314,100	447,033
Government grants		299,572	299,572
Contributed nonfinancial assets	79,966		79,966
Program service fees	718,591		718,591
Gain on sale of property	7,900,564		7,900,564
Net investment return	(918,010)	(89,897)	(1,007,907)
Other income	<u>12,916</u>		<u>12,916</u>
Total revenue	7,926,960	3,416,192	11,343,152
Net assets released from restrictions:			
Expiration of time restrictions	1,981,761	(1,981,761)	
Program expenditures	<u>1,419,267</u>	<u>(1,419,267)</u>	
Total	<u>11,327,988</u>	<u>15,164</u>	<u>11,343,152</u>
EXPENSES:			
Program services:			
Mental health	1,733,471		1,733,471
Basic needs	921,393		921,393
Financial stability	<u>765,548</u>		<u>765,548</u>
Total program services	3,420,412		3,420,412
Management and general	776,773		776,773
Fundraising	<u>308,210</u>		<u>308,210</u>
Total expenses	<u>4,505,395</u>		<u>4,505,395</u>
CHANGES IN NET ASSETS	6,822,593	15,164	6,837,757
Net assets, beginning of year	<u>10,774,176</u>	<u>1,805,432</u>	<u>12,579,608</u>
Net assets, end of year	<u>\$17,596,769</u>	<u>\$ 1,820,596</u>	<u>\$19,417,365</u>

See accompanying notes to consolidated financial statements.

Family Houston and Family Service Foundation of Houston

Consolidated Statement of Functional Expenses for the year ended June 30, 2023

<u>EXPENSES</u>	<u>MENTAL HEALTH</u>	<u>BASIC NEEDS</u>	<u>FINANCIAL STABILITY</u>	<u>TOTAL</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL EXPENSES</u>
Salaries and related expenses	\$ 1,483,473	\$ 418,327	\$ 552,320	\$ 2,454,120	\$ 470,573	\$ 327,685	\$ 3,252,378
Fees and contract services	27,833	5,296	11,338	44,467	287,910	93,466	425,843
Assistance to individuals		277,155		277,155			277,155
Occupancy	80,382	20,556	17,047	117,985	33,724	21,468	173,177
Software licenses	24,536	6,583	8,755	39,874	26,790	16,802	83,466
Supplies	3,252	8,953	1,931	14,136	9,541	17,787	41,464
Insurance	16,993	4,646	6,122	27,761	6,350	3,765	37,876
Depreciation	14,183	6,390	5,163	25,736	7,336	4,303	37,375
Printing and publications	901	688	620	2,209	5,355	14,546	22,110
Telephone	6,975	1,897	2,024	10,896	4,222	746	15,864
Travel and training	5,583	105	1,093	6,781	384	509	7,674
Other	2,170	154	210	2,534	9,673	4,407	16,614
Total expenses	<u>\$ 1,666,281</u>	<u>\$ 750,750</u>	<u>\$ 606,623</u>	<u>\$ 3,023,654</u>	<u>\$ 861,858</u>	<u>\$ 505,484</u>	4,390,996
Direct donor benefit costs from special event							<u>27,175</u>
Total							<u>\$ 4,418,171</u>

See accompanying notes to consolidated financial statements.

Family Houston and Family Service Foundation of Houston

Consolidated Statement of Functional Expenses for the year ended June 30, 2022

<u>EXPENSES</u>	<u>MENTAL HEALTH</u>	<u>BASIC NEEDS</u>	<u>FINANCIAL STABILITY</u>	<u>TOTAL</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL EXPENSES</u>
Salaries and related expenses	\$ 1,532,220	\$ 610,767	\$ 682,419	\$ 2,825,406	\$ 448,280	\$ 237,799	\$ 3,511,485
Fees and contract services	30,736	3,694	9,536	43,966	200,137	29,776	273,879
Assistance to individuals		238,463		238,463			238,463
Occupancy	70,564	13,233	21,433	105,230	27,671	10,362	143,263
Software licenses	7,396	1,850	2,261	11,507	18,422	6,198	36,127
Supplies	853	7,261	12,584	20,698	14,149	7,802	42,649
Insurance	24,225	9,417	10,664	44,306	7,793	3,857	55,956
Depreciation	54,326	28,876	23,992	107,194	14,979	6,244	128,417
Printing and publications	322	307	184	813	9,096	4,349	14,258
Telephone	8,028	5,942	2,047	16,017	3,517	581	20,115
Travel and training	2,659		193	2,852	675	906	4,433
Other	2,142	1,583	235	3,960	32,054	336	36,350
Total expenses	<u>\$ 1,733,471</u>	<u>\$ 921,393</u>	<u>\$ 765,548</u>	<u>\$ 3,420,412</u>	<u>\$ 776,773</u>	<u>\$ 308,210</u>	<u>\$ 4,505,395</u>

See accompanying notes to consolidated financial statements.

Family Houston and Family Service Foundation of Houston

Consolidated Statements of Cash Flows for the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,353,759	\$ 6,837,757
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(1,252,430)	1,103,777
Depreciation	37,375	128,417
Gain on sale of property		(7,900,564)
Changes in operating assets and liabilities:		
Program fees receivable	(26,548)	98,943
Prepaid expenses	(70,417)	21,000
Contributions receivable	(829,539)	940,719
Accounts payable	16,524	(33,761)
Accrued salaries and related expenses	(50,043)	(82,967)
Deferred revenue	<u>22,696</u>	<u>(71,960)</u>
Net cash provided by operating activities	<u>201,377</u>	<u>1,041,361</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(20,946,540)	(94,542)
Sales of investments	11,468,471	
Net purchase of money market mutual funds held as investments	1,118,509	(979)
Proceeds from sale of property		8,659,948
Purchases of property	<u> </u>	<u>(13,563)</u>
Net cash provided (used) by investing activities	<u>(8,359,560)</u>	<u>8,550,864</u>
NET CHANGE IN CASH	(8,158,183)	9,592,225
Cash, beginning of year	<u>10,363,908</u>	<u>771,683</u>
Cash, end of year	<u>\$ 2,205,725</u>	<u>\$10,363,908</u>

See accompanying notes to consolidated financial statements.

Family Houston and Family Service Foundation of Houston

Notes to Consolidated Financial Statements for the years ended June 30, 2023 and 2022

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Serving Houston families since 1904, Family Houston is a Texas nonprofit corporation providing a wide range of health and human services for families in the greater Houston community. Family Houston’s programs seek to create a stronger community for tomorrow by helping individuals and families meet the challenges they face today. Family Service Foundation of Houston (the Foundation) is a Texas nonprofit corporation founded to support the mission and benevolent activities of Family Houston. Family Houston is the sole member of the Foundation.

Family Houston’s programs are summarized in the following categories:

- *Mental health* – Counseling and Parenting Resources, providing children, adolescents, and adults with individual, family and group counseling, as well as providing valuable information for raising resilient, self-disciplined children.
- *Basic needs* – Intensive case management, connecting individuals and families to resources and benefits.
- *Financial stability* – Financial and Employment Coaching, guiding individuals and families as they budget, manage debt, improve credit, find employment, and achieve goals, as well as providing one-on-one coaching to help individuals reach their career goals.

Basis of consolidation – The accompanying financial statements include the assets, liabilities, net assets and activities of Family Houston and the Foundation. Balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – Family Houston and the Foundation are exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code. Family Houston is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi). The Foundation is classified as a public charity under §509(a)(3)(b)(i) as a Type I supporting organization to Family Houston.

Cash concentration – Demand 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. At June 30, 2023, all contributions receivable are due within one year.

At June 30, 2023, other contributions receivable from one donor total \$1,000,000 or 90% of the total.

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 or at fair value at the date of gift if donated. Depreciation is provided using the straight-line method over estimated useful lives of 5 to 10 years. Items with a cost or fair value of \$2,000 or more and a useful life of more than 3 years are capitalized.

Property consists of equipment and software. At June 30, 2023 and 2022, property net of accumulated depreciation of \$263,104 and \$277,195, totals \$18,318 and \$55,693, respectively.

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

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

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before Family Houston is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been substantially met.

Contributed nonfinancial assets are recognized at fair value as unrestricted in-kind contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Family Houston recognized approximately \$70,000 and \$80,000 of contributed facility rent, supplies and services in 2023 and 2022, respectively. The fair value of facility rent is estimated using recent comparable rental rates for the area, while supplies and services are based on retail value and prevailing rates for similar services. These amounts are included in contribution revenue and program services expenses in these financial statements.

Special event revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Amounts received in advance are recorded as advances and included with deferred revenue. Direct donor benefit costs represent the cost of goods and services provided to attendees of the special event.

Program service fees are derived from providing mental health counseling services to individuals. Performance obligations are recognized at the point in time the services are provided. Program service fees are recognized at the amount of consideration Family Houston expects to be entitled to in exchange for those services. Amounts are due from third-party payors billed weekly at amounts expected to be received and copayments are due from individuals when services are provided.

Family Houston also has contracts with organizations to provide counseling, financial and employment coaching, and other support services to individuals in need at a predetermined hourly rate or per session fee. Performance obligations are recognized at the point in time the services are provided. Family Houston submits reimbursement requests monthly to certain organizations for the costs incurred and receives advance payments from certain organizations. Family Houston's receivables related to program service fees are \$73,775, \$51,378, and \$71,163 at June 30, 2023, 2022, and 2021, respectively. Family Houston's deferred revenue from program service fees is \$60,985, \$61,390, and \$62,430 at June 30, 2023, 2022 and 2021, respectively.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and occupancy costs 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 of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash	\$ 2,205,725	\$10,363,908
Program fees receivable	78,550	52,996
Contributions receivable	2,004,067	1,174,528
Investments	<u>17,704,486</u>	<u>8,092,496</u>
Total financial assets	21,992,828	19,683,928
Less financial assets not available for general expenditure:		
Investments held by the Foundation, net of appropriation and voluntary distributions of \$600,000 for 2022 and \$800,000 for 2023	(15,578,588)	(5,399,706)
Board-designated cash held by the Foundation	<u> </u>	<u>(9,219,958)</u>
Total financial assets available for general expenditure	<u>\$ 6,414,240</u>	<u>\$ 5,064,264</u>

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

Family Houston is substantially supported by contributions and service provider contracts, and regularly monitors liquidity required to meet its operating needs while striving to maximize the investment of available funds. As part of the organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Family Houston has an operating reserve policy to designate a minimum of two months of average recurring operating costs.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments are held for the following:

	<u>2023</u>	<u>2022</u>
Foundation – unrestricted	\$13,261,434	\$ 3,449,849
Foundation endowments	2,917,154	2,749,857
Family Houston	<u>1,525,898</u>	<u>1,892,790</u>
Total investments	<u>\$17,704,486</u>	<u>\$ 8,092,496</u>

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

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at June 30, 2023 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stock:				
Financial institutions	\$ 2,088,697			\$ 2,088,697
Healthcare	1,845,056			1,845,056
Information technology	1,762,123			1,762,123
Consumer staples	1,665,934			1,665,934
Industrials and manufactures	1,373,695			1,373,695
Consumer discretionary	1,249,374			1,249,374
Energy	913,407			913,407
Other	433,786			433,786
Corporate bonds		\$ 4,507,031		4,507,031
Short-term bond mutual funds	841,786			841,786
Money market mutual funds	775,912			775,912
U. S. Treasury notes	<u>247,685</u>			<u>247,685</u>
Total assets measured at fair value	<u>\$13,197,455</u>	<u>\$ 4,507,031</u>	<u>\$ 0</u>	<u>\$17,704,486</u>

Assets measured at fair value at June 30, 2022 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap index	\$ 1,733,858			\$ 1,733,858
Mid-cap index	1,674,913			1,674,913
Small-cap index	1,591,741			1,591,741
Short-term bond mutual funds	1,197,563			1,197,563
Money market mutual funds	<u>1,894,421</u>			<u>1,894,421</u>
Total assets measured at fair value	<u>\$ 8,092,496</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,092,496</u>

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

- *Common stock* and *U. S. Treasury notes* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Corporate bonds* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes to calculate fair values.
- *Mutual funds* are valued at the reported net asset value of shares held at year end.

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 Family Houston and the Foundation believe their 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 4 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	<u>2023</u>	<u>2022</u>
Undesignated	\$ 3,168,743	\$ 6,150,783
Foundation	16,743,320	11,390,293
Property, net	<u>18,318</u>	<u>55,693</u>
Total net assets without donor restrictions	<u>\$19,930,381</u>	<u>\$17,596,769</u>

NOTE 5 – 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:		
Family Houston:		
Basic needs	\$ 156,944	\$ 48,602
Mental health	50,000	
Financial stability	<u> </u>	<u>87,681</u>
Total subject to expenditure for specified purpose	206,944	136,283
Subject to the passage of time:		
Family Houston:		
United Way allocations for subsequent periods	892,572	1,083,362
Other contributions restricted for future operations	<u> </u>	<u>21,429</u>
Total subject to passage of time	<u>892,572</u>	<u>1,104,791</u>
Endowments subject to spending policy and appropriation	<u>741,227</u>	<u>579,522</u>
Total net assets with donor restrictions	<u>\$ 1,840,743</u>	<u>\$ 1,820,596</u>

NOTE 6 – FOUNDATION ENDOWMENT FUNDS

The Foundation’s endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments.

Changes in the Foundation’s endowment net assets are as follows:

	BOARD- DESIGNATED ENDOWMENT	WITH DONOR RESTRICTIONS ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	TOTAL
Endowment net assets, June 30, 2021	<u>\$ 3,200,076</u>	<u>\$ 458,954</u>	<u>\$ 210,465</u>	<u>\$ 3,869,495</u>
Net investment return	(429,741)	(89,897)		(519,638)
Appropriations for expenditures	<u>(600,000)</u>			<u>(600,000)</u>
Endowment net assets, June 30, 2022	2,170,335	369,057	210,465	2,749,857
Net investment return	605,592	161,705		767,297
Appropriations for expenditures	<u>(600,000)</u>			<u>(600,000)</u>
Endowment net assets, June 30, 2023	<u>\$ 2,175,927</u>	<u>\$ 530,762</u>	<u>\$ 210,465</u>	<u>\$ 2,917,154</u>

The Board of Directors of the Foundation (Foundation Board) has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies the original value of gifts donated to the perpetual endowment as *net assets with donor restrictions* required to be maintained in perpetuity. The remaining portion of the donor-restricted endowment fund is classified as *net assets with donor restrictions* subject to spending policy and appropriation until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Foundation considers the duration and preservation of the funds and other resources of the Foundation in making a determination to appropriate or accumulate donor-restricted endowment funds.

Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the Foundation Board, the overall investment objective is to provide a maximum total return while exposing the Foundation to a reasonable, but not excessive amount of risk.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation’s endowment spending policy allows a maximum appropriation of 5% of the fund’s fair market value determined based on a three-year rolling average. Distributions are approved by the Foundation Board annually. The Foundation Board may approve a distribution in excess of the spending policy for extenuating circumstances.

NOTE 7 – CONDITIONAL CONTRIBUTIONS

At June 30, 2023, Family Houston has approximately \$300,000 of conditional contributions from a government agency, which have not been recognized in the accompanying financial statements because the conditions have not been met. Family Houston will recognize this grant as qualifying grant expenditures are incurred and/or performance requirements are met.

At June 30, 2023, Family Houston has approximately \$137,000 of conditional contributions from United Way and other organizations, which have not been recognized in the accompanying financial statements because the conditions have not been met. Family Houston will recognize these contributions when the performance requirements have been met.

NOTE 8 – EMPLOYEE BENEFIT PLAN

Family Houston participates in a §403(b) plan administered by Mutual of America Life Insurance Company. Employees may elect to participate after one year of service by contributing up to 15% of their compensation to the plan. Each year, Family Houston makes a contribution of 2% of participants' compensation and, in addition, makes a matching contribution equal to 100% of the employee's contribution up to a maximum of 3% of the employee's compensation. Family Houston contributed approximately \$95,000 and \$113,000 to this plan during the years ended June 30, 2023 and 2022, respectively.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 7, 2023, 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.
