THE WOMEN'S HOME AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(With Independent Auditor’s Report Thereon)

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DoerenMayhew CPAs AND ADVISORS

THE WOMEN'S HOME

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
of **The Women's Home**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Women's Home and Affiliates (collectively, The Home), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the December 31, 2018 and 2017 statements of financial position of The Women's Home Hammerly Phase II, LP (Hammerly LP), which statements reflect total assets of $15,816,437 and $16,372,825, respectively adjusted for elimination entries, and total liabilities of $1,530,741 and $1,371,728, respectively adjusted for elimination entries. We did not audit the statements of operations of Hammerly LP, which for the years ended December 31, 2018 and 2017, reflects total revenues of $764,972 and $657,968, respectively, and total expenses of $1,420,844 and $1,796,504, respectively adjusted for elimination entries. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Hammerly LP, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Auditor's Responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Women's Home and Affiliates as of December 31, 2018 and 2017, and the consolidated 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.

Doeren Mayhew

Houston, Texas
June 6, 2019

THE WOMEN'S HOME

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

Assets	**2018**	**2017**
Cash and cash equivalents (Note 3)	$ 1,154,687	$ 739,783
Pledges receivable, net (Notes 3 and 5)	397,727	476,802
Government grants receivable	46,970	185,601
Inventory	140,692	109,687
Prepaid expenses and other assets	203,593	124,972
Developer fee receivable (Note 6)	1,050,327	1,050,327
Investments (Note 7)	1,616,213	1,870,553
Note receivable (Note 12)	6,724,000	6,724,000
Restricted cash and cash equivalents (Note 12)	280,308	1,527,249
Pledges receivable restricted for capital projects, net (Notes 3 and 5)	5,397	146,185
Property and equipment, net (Notes 8, 9 and 12)	33,394,290	34,695,563
Total assets	$ 45,014,204	$ 47,650,722
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 575,453	$ 736,578
Construction payable	153,963	700,591
Security deposits and prepaid rent	35,432	37,950
Developer fee payable (Note 11)	1,204,348	1,204,348
Line of credit, net (Note 9)	454,134	250,000
Notes payable (Note 10)	-	200,029
New Market Tax Credits notes payable, net (Note 12)	9,324,177	9,306,309
Total liabilities	11,747,507	12,435,805
Net assets:		
Without donor restrictions:		
The Women's Home	23,125,153	24,478,661
Noncontrolling interest in Hammerly LP (Note 19)	7,864,607	8,585,972
Total without donor restrictions	30,989,760	33,064,633
With donor restrictions:		
Temporary (Notes 13 and 15)	1,983,742	1,857,089
Perpetual (Notes 13 and 15)	293,195	293,195
Total with donor restrictions	2,276,937	2,150,284
Total net assets	33,266,697	35,214,917
Total liabilities and net assets	$ 45,014,204	$ 47,650,722

See accompanying notes to consolidated financial statements.

THE WOMEN'S HOME

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public support:						
Government grants	$ 356,479	$ -	$ 356,479	$ 1,942,791	$ -	$ 1,942,791
Contributions	1,128,528	561,263	1,689,791	995,788	234,691	1,230,479
Special events	331,049	-	331,049	361,459	10,000	371,459
Direct donor benefits for special events	(65,816)	-	(65,816)	(141,145)	-	(141,145)
United Way contributions	-	157,385	157,385	-	187,877	187,877
Net assets released from restrictions (Note 14)	581,523	(581,523)	-	1,892,977	(1,892,977)	-
Total public support	2,331,763	137,125	2,468,888	5,051,870	(1,460,409)	3,591,461
Revenues:						
Sales to public	678,192	-	678,192	632,192	-	632,192
Rental income (Note 18)	792,116	-	792,116	657,400	-	657,400
Program service fees	803,513	-	803,513	697,046	-	697,046
Net investment (loss) income	(85,778)	(10,472)	(96,250)	154,419	31,921	186,340
Other income (Note 12)	124,503	-	124,503	184,078	-	184,078
Total revenues	2,312,546	(10,472)	2,302,074	2,325,135	31,921	2,357,056
Total public support and revenues	4,644,309	126,653	4,770,962	7,377,005	(1,428,488)	5,948,517
Expenses:						
Program services:						
Apartments and resident services	3,101,755	-	3,101,755	2,831,584	-	2,831,584
Residential rehabilitation	809,054	-	809,054	815,475	-	815,475
Clinical counseling	574,090	-	574,090	514,313	-	514,313
Support services	802,140	-	802,140	753,229	-	753,229
The Cottage Shop	323,777	-	323,777	321,682	-	321,682
Total program services	5,610,816	-	5,610,816	5,236,283	-	5,236,283
Management and general	577,420	-	577,420	414,024	-	414,024
Fundraising	530,946	-	530,946	589,026	-	589,026
Total expenses	6,719,182	-	6,719,182	6,239,333	-	6,239,333
Change in net assets before noncontrolling ownership interest	(2,074,873)	126,653	(1,948,220)	1,137,672	(1,428,488)	(290,816)
Change in noncontrolling ownership interest (Note 19)	721,365	-	721,365	1,187,065	-	1,187,065
Change in net assets	(1,353,508)	126,653	(1,226,855)	2,324,737	(1,428,488)	896,249
Net assets, beginning of year	24,478,661	2,150,284	26,628,945	22,153,924	3,578,772	25,732,696
Net assets, end of year	$ 23,125,153	$ 2,276,937	$ 25,402,090	$ 24,478,661	$ 2,150,284	$ 26,628,945

See accompanying notes to consolidated financial statements.

THE WOMEN'S HOME

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Apartments and Resident Services	Residential Rehabilitation	Clinical Counseling	Support Services	The Cottage Shop	Management and General	Cost of Goods Sold	Fundraising	Total
Salaries and employee benefits	$ 475,782	$ 430,826	$ 430,416	$ 649,956	$ 229,263	$ 262,886	$ -	$ 350,282	$ 2,829,411
Depreciation	1,170,956	89,452	14,731	28,592	24,818	13,726	-	1,945	1,344,220
Utilities and occupancy	470,620	121,810	19,849	40,883	16,605	28,165	-	17,793	715,725
Professional fees/contract services	246,650	11,490	89,649	23,810	4,586	120,626	-	101,024	597,835
Repairs, maintenance and rental	124,212	40,596	5,797	12,752	8,240	15,816	-	4,304	211,717
Other	131,177	4,610	2,437	20,107	23,339	85,789	-	36,945	304,404
Interest expense	183,200	-	-	-	-	19,864	-	-	203,064
Food and supplies	46,232	94,732	6,389	12,445	10,631	21,266	-	5,446	197,141
Insurance	99,038	15,422	4,786	12,326	4,499	8,316	-	4,248	148,635
Property taxes	80,251	-	-	-	-	-	-	-	80,251
Management fees	69,388	-	-	-	-	-	-	-	69,388
Costs of direct benefits to donors	-	-	-	-	-	-	65,816	-	65,816
Printing and postage	4,249	116	36	1,269	1,796	966	-	8,959	17,391
Total expenses by function	3,101,755	809,054	574,090	802,140	323,777	577,420	65,816	530,946	6,784,998
Less costs of direct benefits to donors included with revenues on the statement of operations	-	-	-	-	-	-	(65,816)	-	(65,816)
Total expenses included in the expense section on the statement of operations	$ 3,101,755	$ 809,054	$ 574,090	$ 802,140	$ 323,777	$ 577,420	$ -	$ 530,946	$ 6,719,182

See accompanying notes to consolidated financial statements.

THE WOMEN'S HOME

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Apartments and Resident Services	Residential Rehabilitation	Clinical Counseling	Support Services	The Cottage Shop	Management and General	Cost of Goods Sold	Fundraising	Total
Salaries and employee benefits	$ 410,378	$ 424,865	$ 362,017	$ 591,252	$ 213,246	$ 189,207	$ -	$ 296,102	$ 2,487,067
Depreciation	989,867	95,355	15,425	27,918	23,359	19,471	-	2,810	1,174,205
Utilities and occupancy	352,745	120,232	25,067	48,419	21,504	16,937	-	20,263	605,167
Professional fees/contract services	417,272	8,781	84,530	21,128	11,847	61,119	-	136,050	740,727
Repairs, maintenance and rental	211,913	55,800	9,306	20,868	14,732	24,549	-	8,591	345,759
Other	27,828	2,968	5,463	18,892	19,755	55,827	-	46,974	177,707
Interest expense	245,951	-	-	-	-	9,626	-	-	255,577
Food and supplies	15,637	91,143	3,644	12,500	9,161	18,449	-	17,848	168,382
Insurance	71,772	15,925	8,285	10,873	7,197	14,683	-	4,749	133,484
Property taxes	86,980	-	-	-	-	-	-	-	86,980
Costs of direct benefits to donors	-	-	-	-	-	-	141,145	-	141,145
Printing and postage	1,241	406	576	1,379	881	4,156	-	55,639	64,278
Total expenses by function	2,831,584	815,475	514,313	753,229	321,682	414,024	141,145	589,026	6,380,478
Less costs of direct benefits to donors included with revenues on the statement of operations	-	-	-	-	-	-	(141,145)	-	(141,145)
Total expenses included in the expense section on the statement of operations	$ 2,831,584	$ 815,475	$ 514,313	$ 753,229	$ 321,682	$ 414,024	$ -	$ 589,026	$ 6,239,333

See accompanying notes to consolidated financial statements.

THE WOMEN'S HOME

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (1,226,855)	$ 896,249
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,323,015	1,174,205
Amortization of debt issuance costs	22,002	17,868
Discount on pledges receivable	1,367	5,896
Net unrealized and realized loss (gain) on investments	150,634	(135,945)
In-kind donation	(27,660)	-
Change in operating assets and liabilities:		
Pledges receivable	77,708	81,234
Government grants receivable	138,631	153,696
Inventory	(3,345)	(1,602)
Prepaid expenses and other assets	(78,621)	7,411
Developer fee receivable	-	21,506
Accounts payable and accrued liabilities	(161,125)	457,639
Security deposits and prepaid rent	(2,518)	9,084
Net cash provided by operating activities	213,233	2,687,241
Cash flows from investing activities:		
Purchases of property and equipment	(568,370)	(7,463,274)
Net change in restricted cash and cash equivalents	1,246,941	6,784,099
Purchases of investments	(570,875)	(2,262,704)
Sales of investments	674,581	2,958,477
Net cash provided by investing activities	782,277	16,598
Cash flows from financing activities:		
Proceeds from contributions restricted to capital projects	140,788	445,018
Changes in noncontrolling ownership interest	(721,365)	7,297,428
Net change in line of credit	214,883	250,000
Payments on debt	(200,029)	(10,841,415)
Proceeds from debt	-	224,968
Debt issuance costs	(14,883)	-
Net cash used by financing activities	(580,606)	(2,624,001)
Net increase in cash and cash equivalents	414,904	79,838
Cash and cash equivalents, beginning of year	739,783	659,945
Cash and cash equivalents, end of year	$ 1,154,687	$ 739,783
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest, including capitalized interest of $138,070 for 2017	$ 171,230	$ 393,647
Noncash investing and financing activities - purchase of property and equipment through a construction payable	$ -	$ 379,371

See accompanying notes to consolidated financial statements.

Note 1 - Description of Organization

About The Women's Home

The Women's Home builds communities that strengthen women and support families as they reclaim their stability. Since its creation in 1957, the agency has fulfilled this mission by providing housing, behavioral health treatment and other wraparound support services to vulnerable women and families in the Houston, Texas area. The Women's Home embraces the WholeLife® service model, which addresses six areas of wellness - emotional/mental, physical, fiscal, social, vocational, and spiritual so that women and their families can create a balanced and rewarding life.

Residential Treatment and Transitional Housing Program

The Treatment and Transitional Housing Program provides housing, behavioral health treatment and wraparound support services to women experiencing homelessness due to addiction and mental illness. This program has the capacity to serve 50 women at one time and offers participants up to 18 months of clinical counseling, support and vocational services, with the goal of helping them obtain self-sufficiency.

Apartments and Resident Services

The Women's Home has two permanent supportive housing complexes in the Spring Branch neighborhood of Houston - Jane Cizik Garden Place and Adele and Ber Pieper Family Place. Together, these facilities offer 171 units of safe, affordable housing and case management services to low income and homeless households in the Houston area.

The Cottage Shop

The Women's Home operates a thrift shop that sells donated items such as clothing, furniture, and housewares. The shop is partially staffed by volunteers and serves as a job training site for residential clients.

Mabee WholeLife® Service Center

The Women's Home operates a collaborative, community service center in the Spring Branch neighborhood of Houston called the Mabee WholeLife® Service Center. With its cooperative partners, The Women's Home provides holistic care for the entire family at the center that includes integrated healthcare, youth development programming, workforce development training, adult basic education, physical wellness, creative arts engagement and other support services.

Continued

Note 1 - Description of Organization (Continued)

Affiliate Companies

The Women's Home Hammerly Phase II, LP (Hammerly LP) is a Texas limited partnership formed on June 30, 2014 to develop Adele and Ber Pieper Family Place, an affordable housing, 84-unit permanent supportive apartment community that serves families in a safe, sober environment that includes case management services. The Women's Home Hammerly GP, LLC (Hammerly GP) is the general partner and 0.01% owner of Hammerly LP; Hudson SLP, LLC is the Special Limited Partner and 0.01% owner, and Hudson Women's Home, LLC is the Investment Partner and 99.98% owner. This project was financed with Low Income Housing Tax Credits allocated from the Texas Department of Housing and Community Affairs and funded by the City of Houston (the City) through Home Investment Partnership Program (HOME) funds, a federal pass-through from the U.S. Department of Housing and Urban Development (HUD), in addition to contributions from private sources. Construction of the Adele and Ber Pieper Family Place was completed in October 2016, whereupon it commenced rental operations. Hammerly LP will continue in perpetuity, unless dissolved earlier. The Women's Home is the sole member of Hammerly GP.

WholeLife™ Services, Inc. is a Texas nonprofit corporation formed on October 12, 2015 to serve as the Qualified Active Low Income Community Business to secure the New Market Tax Credit (NMTC) financing for the construction of the Mabee WholeLife™ Service Center. This project is next to the Jane Cizik Garden Place and uses collaborative relationships to offer a variety of services to enhance the wellness and stability of families in the housing programs and the surrounding neighborhood. These services include primary and behavioral healthcare, after-school and summer enrichment programs, and adult education and workforce development programs. This project was funded in part by the City through Community Development Block Grant Funds, a federal pass-through from HUD, and contributions from private sources. Construction of the Mabee WholeLife™ Service Center was completed in October 2017, whereupon it commenced operations. WholeLife™ Services, Inc.'s board is appointed by The Women's Home.

Note 2 - Summary of Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (GAAP), and include the consolidated activities of The Women's Home, Hammerly GP, Hammerly LP and WholeLife™ Services, Inc. (collectively, The Home). Based on the terms of the partnership agreement, Hammerly GP is considered to control Hammerly LP, and as a result, the limited partnership is included in these consolidated financial statements. Intercompany transactions have been eliminated in consolidation.

Continued

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The Home reports its consolidated financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or Board of Directors (Board) designation.

Net assets with donor restrictions: Net assets subject to donor-imposed restrictions. Donor-imposed restrictions may be temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

If donor-imposed restrictions are met in the same reporting period as the contribution was recognized as revenue, The Home reports such contributions as an increase in net assets without donor restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions and when the restriction expires or is satisfied, these net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, all highly liquid investments with a maturity of three months or less at time of purchase are considered to be cash equivalents. Any restricted funds or escrows with use restrictions are not considered cash equivalents for purpose of the consolidated statement of cash flows. Cash equivalents held for investment purposes in money market accounts are classified as investments on the consolidated statement of financial position.

Pledges Receivable

Pledges are recorded as revenue in the year they are received unless they contain a conditional promise to give. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material.

Note 2 - Summary of Significant Accounting Policies (Continued)

Allowance for Uncollectible Accounts

An allowance for pledges and government grants receivable is provided when it is believed amounts may not be collected in full. The amount of bad debt expense recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and account by account analysis of balances each period. Receivables are written off as a charge to the allowance for uncollectible accounts when management determines the receivable will not be collected. It is possible that management's estimates regarding the collectability of the balances will change in the near term resulting in a change in the carrying value of these receivables. At December 31, 2018 and 2017, no allowance was established for potentially uncollectible accounts.

Inventory

Inventory represents donated items such as clothing and home furnishings held for sale to the general public at The Cottage Shop, as well as items that are intended to be used in fundraising events. These items are valued based on estimated fair value at time of donation.

Note Receivable

The note receivable is reported at its outstanding principal balance. The note receivable is considered to be fully collectible, and accordingly, no allowance for doubtful accounts has been provided. Interest on the note receivable is recognized over the term of the note receivable and is calculated using the simple-interest method on principal amounts outstanding.

Investments

Investments are reported at fair value. Investment income is reported in the consolidated statement of operations and changes in net assets as an increase in net assets without donor restrictions unless the use of the income is limited by donor-imposed restrictions. Investment income whose use is restricted by the donor is reported as an increase in net assets with donor restrictions until expended in accordance with donor-imposed restrictions. Investment income is reported net of investment related expenses.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at the date of gift, if donated. Property and equipment purchases over $5,000 are capitalized. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets, which range from three to ten years for furniture, fixtures and equipment and ten to thirty-nine years for buildings and improvements.

Continued

Note 2 - Summary of Significant Accounting Policies (Continued)

Impairment of Long Lived Assets

The Home reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which carrying amount exceeds the fair value as determined by an appraisal, discounted cash flow analysis or other valuation technique. There was no impairment loss recognized as of December 31, 2018 or 2017.

Debt Issuance Costs

Debt issuance costs are amortized over the term of the related debt. Amortization of debt issuance costs is reported as a component of interest expense. Unamortized debt issuance costs are reported as a direct reduction of the related debt.

Contributions

Contributions are recorded as revenue at fair value when an unconditional commitment is received from the donor. Contributions that are restricted by the donor for future periods or a specific purpose are reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions in the consolidated statement of operations and changes in net assets. Contributions whose donor restrictions are met in the same reporting period are reported as contributions without donor restrictions.

Gifts of property and equipment are recognized as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as donor-restricted support and absent explicit donor stipulations about how long those long-lived assets must be maintained, are released from donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated Materials and Services

Donated materials and equipment are reflected as contributions in the accompanying consolidated financial statements at their estimated fair values at date of receipt. A substantial number of volunteers have made significant contributions of their time to support programs, the thrift shop, fundraising efforts and administration. No amounts have been reflected in the accompanying consolidated financial statements for these services since the nature of these services does not meet the criteria for revenue recognition under GAAP.

Continued

Note 2 - Summary of Significant Accounting Policies (Continued)

Government Grants, Sales to Public and Program Service Fees

Government grants and program service fees are recognized in the period that services are provided. Sales to the public are recognized when products are sold.

Rental Income

Rental income is recognized as rent becomes due. Rental payments received in advance are deferred until earned and reported as prepaid rent. Apartment rental rates include free utilities and access to cable television. Other income resulting from fees earned for late payments, cleaning, damages and laundry facilities are recorded when earned.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of operations and changes in net assets. Expenses which are directly associated with a particular program are charged to that program. Expenses that cannot be directly identified with a specific program are charged to the various programs based upon salaries, square footage, or other reasonable methods for allocating multiple program expenditures.

Use of Estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the amounts of reported revenues and expenses, and the allocation of expenses among various programs. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform with the current year presentation.

Change in Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board issued *Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities.* This ASU amended the reporting model for nonprofit organizations and enhanced required disclosures. The Home adopted ASU 2016-14 during fiscal year 2018, with retrospective application to fiscal year 2017. The major changes to The Home's consolidated financial statements as a result of adopting ASU 2016-14 include (a) the presentation of two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) disclosure of quantitative and qualitative information regarding liquidity and availability of resources, and (c) modifying other disclosures intended to increase the usefulness of the financial statements.

Continued

Note 3 - Concentrations of Credit Risk

Pledges Receivable

At December 31, 2018, pledges totaling $272,654 from three organizations were in excess individually of 10% of gross total pledges. At December 31, 2017, pledges totaling $412,780 from two organizations were in excess individually of 10% of gross total pledges.

Cash in Excess of FDIC Insurance

Cash is maintained in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation up to $250,000 per depositor. As of December 31, 2018 and 2017, amounts in excess of the insured limits were $530,540 and $1,279,543, respectively. Management believes that the credit risk is mitigated by the financial strength of the financial institutions where the deposits are held.

Note 4 - Income Taxes

The Women's Home and WholeLife™ Services, Inc. are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and accordingly, file annual federal information returns that are subject to routine examinations. There are no examinations for any tax periods currently in progress for these tax-exempt entities and the open tax period is 2015 through 2018.

Hammerly GP and Hammerly LP are for-profit entities that are treated as pass-through entities for tax purposes and are not subject to federal income taxes. Accordingly, no provision for income taxes has been reflected in the consolidated financial statements for these for-profit entities. These partnerships may be subject to state franchise taxes consisting of tax on taxable margin. No provision for state franchise taxes was made in the accompanying consolidated financial statements as management anticipates no state franchise tax liability for the years ended December 31, 2018 or 2017. Income tax returns filed by the partnerships are subject to examination by the Internal Revenue Service for period of three years. There are no examinations currently in progress for the partnership tax returns.

Continued

Note 5 - Pledges Receivable

Pledges receivable consist of the following at December 31:

	2018	2017
Amounts to be collected within one year:		
United Way	$ 172,651	$ 197,363
Other pledges	170,386	397,873
Amounts to be collected one to five years	63,703	30,000
Pledges receivable	406,740	625,236
Discount to present value, 4% interest rate	(3,616)	(2,249)
Total outstanding pledges, net	$ 403,124	$ 622,987
Pledges receivable, net	$ 397,727	$ 476,802
Pledges receivable restricted to capital projects, net	5,397	146,185
Total outstanding pledges, net	$ 403,124	$ 622,987

Note 6 - Developer Fee Receivable

On May 29, 2015, The Women's Home entered into an agreement to provide development and consulting services to the third-party developer of the Adele and Ber Pieper Family Place. The amount earned by The Women's Home is paid by the third-party developer from amounts received from their development agreement with Hammerly LP (see Note 11). At December 31, 2018 and 2017, the developer fee receivable is $1,050,327.

Note 7 - Fair Value of Financial Instruments

GAAP requires that certain assets and liabilities be reported at fair value and establishes 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 reporting date.

Certain of The Home's financial assets are measured at fair value on a recurring basis. The three levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2 - Pricing inputs other than quoted prices included in Level 1, which are either directly observable or that can be derived or supported from observable data as of the reporting date.

Level 3 - Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are generally unobservable.

Continued

Note 7 - Fair Value of Financial Instruments (Continued)

Financial instruments measured at fair value on a recurring basis at December 31, 2018 are as follows:

	Level 1	Level 2	Level 3	Total
Equities	$ 901,977	$ -	$ -	$ 901,977
Registered investment companies	313,702	-	-	313,702
U.S. government securities and sponsored enterprises	182,962	-	-	182,962
Corporate bonds	169,141	-	-	169,141
Money market funds	48,431	-	-	48,431
Total investments	$ 1,616,213	$ -	$ -	$ 1,616,213

Financial instruments measured at fair value on a recurring basis at December 31, 2017 are as follows:

	Level 1	Level 2	Level 3	Total
Equities	$ 1,056,333	$ -	$ -	$ 1,056,333
Registered investment companies	366,008	-	-	366,088
U.S. government securities and sponsored enterprises	94,894	-	-	94,894
Corporate bonds	170,607	-	-	170,607
Money market funds	182,711	-	-	182,711
Total investments	$ 1,870,553	$ -	$ -	$ 1,870,553

Registered investment companies and money market funds are valued at the net asset value of shares held at year end as reported on the active market on which the securities are traded. Equities, corporate bonds, and U.S. government securities and sponsored enterprises are valued at the closing price reported on the active market on which the individual securities are traded. There have been no changes in methodologies used at December 31, 2018 or 2017.

The inputs or methodology used to measure investments are not necessarily indicative of the risk of investing in a particular security. 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 such changes could materially affect the amounts reported in the consolidated statement of financial position and consolidated statement of operations and changes in net assets.

Continued

Note 8 - Property and Equipment

The following is a summary of property and equipment at December 31:

	Lives	2018	2017
Land		$ 3,460,874	$ 3,460,874
Land improvements	15 years	1,034,517	1,034,517
Buildings and improvements	10 - 39 years	34,136,053	34,107,205
Furniture and fixtures	5 - 7 years	1,495,292	1,495,292
Office equipment	3 - 10 years	447,360	454,466
Automobiles	5 years	90,447	90,447
Property and equipment		40,664,543	40,642,801
Less: accumulated depreciation		(7,270,253)	(5,947,238)
Property and equipment, net		$ 33,394,290	$ 34,695,563

Depreciation expense for the years ended December 31, 2018 and 2017 was $1,323,015 and $1,174,205, respectively.

Note 9 - Line of Credit

At December 31, 2017, The Women's Home had a $250,000 revolving line of credit with a bank that accrued interest based on a variable interest rate of Prime plus 1.35%, with a floor of 4%. This line of credit was paid off in 2018 and expired on March 25, 2018.

At December 31, 2018, The Women's Home had a $464,883 balance on a revolving line of credit that was entered into on July 27, 2018. The line of credit facility is for a maximum amount of $1,000,000, bears interest at prime, with such amounts payable monthly, and expires on January 27, 2020. This line of credit is collateralized by land and building with a net book value of $1,123,643 at December 31, 2018. In connection with obtaining the line of credit, debt issuance costs of $14,883 were incurred, with an unamortized balance of $10,749 as of December 31, 2018.

Note 10 - Notes Payable

On October 14, 2016, The Women's Home entered into a loan agreement with a bank totaling $3,788,781. The loan agreement was initiated as a construction loan for the Mabee WholeLife™ Service Center and accrued interest at prime plus 1%. During 2018, the outstanding principal and accrued interest were paid in full. As of December 31, 2017, the principal balance outstanding on this loan was $200,029.

On May 29, 2015, Hammerly LP entered into an $8,761,411 advancing construction loan agreement with a bank. The loan accrued interest at a variable one-month LIBOR rate plus 3.5%, with a floor of 4.25%. During 2017, the outstanding principal and accrued interest were paid in full.

Continued

Note 11 - Developer Fee Payable

Hammerly LP entered into a $2,007,247 development agreement with a third party to provide specified services in connection with the development and construction of the Adele and Ber Pieper Family Place. The total fee due under the agreement has been earned and capitalized into the project. At December 31, 2018 and 2017, the remaining amount due for the developer fee was $1,204,348. Developer fees not paid when earned accrue interest at a rate of 2.3%. At December 31, 2018 and 2017, interest of $60,864 and $33,164, respectively, was accrued. Developer fee payments will be made from additional Limited Partner capital contributions and cash flow. The General Partner is obligated to make a capital contribution to pay any developer fees remaining unpaid after the 12th anniversary of the payment of the second capital contribution.

Note 12 - New Market Tax Credit Transactions

The Women's Home entered into an agreement on October 14, 2016 to lend $6,724,000 to COCRF Women's Home Fund, LLC (COCRF Fund). The note receivable is secured by COCRF Fund's membership interest in Catalyst CDE-5 and COCRF SubCDE 43, LLC, which are Community Development Entities formed for the NMTC transactions. The interest rate on the note receivable is fixed at 1.5%, with interest payable quarterly, beginning December 2016 until October 2023. All principal and unpaid interest is due and payable in October 2046. Interest earned in both 2018 and 2017 was $100,860. This note receivable serves as collateral to secure performance by The Home pursuant to a grant agreement with the City of Houston.

WholeLife™ Services, Inc. entered into agreements on October 14, 2016 with Catalyst CDE-5 and COCRF SubCDE 43, LLC, that provided for borrowings of $8,820,000 and $1,000,000, respectively. These funds were used to finance the construction of the Mabee WholeLife™ Service Center Project and are intended to be treated as a "qualified low-income community investment" for purposes of generating NMTC under Section 45D of the Internal Revenue Code of 1986, as amended. The loans are secured by a property deed of trust, security agreement and fixture filing on this project, and a guaranty by The Women's Home. Pursuant to the issuance of the NMTC loans, WholeLife™ Services, Inc. is required to maintain certain funds at Capital One, N.A. which are contractually restricted. At December 31, 2018 and 2017, $280,308 and $1,527,249, respectively, is held for this purpose.

No prepayment of any portion of the NMTC loans is allowed until the seventh anniversary of the loans, which is October 14, 2023. At any time after the seventh anniversary and before the eighth anniversary, the sole member in the COCRF Fund can exercise a put option to The Women's Home to sell its interest in the COCRF Fund for $1,000, which would result in the effective cancellation of the $6,724,000 note receivable from COCRF Fund and allow The Women's Home to cancel the NMTC notes payable.

Continued

Note 12 - New Market Tax Credits Notes Payable (Continued)

The balances outstanding on the notes payable, maturity dates and repayment terms are as follows at December 31:

	2018	2017
Note payable to CSH CDE, interest of 1.539%, matures on October 13, 2046, with principal payments commencing in December 2023.	$ 6,051,600	$ 6,051,600
Note payable to CSH CDE, interest of 1.539%, matures on October 13, 2046, with principal payments commencing in December 2023.	2,768,400	2,768,400
Note payable to COCRF CDE, interest of 1.009%, matures on October 13, 2046, with principal payments commencing in December 2023.	672,400	672,400
Note payable to COCRF CDE, interest of 1.009%, matures on October 13, 2046, with principal payments commencing in December 2023.	327,600	327,600
Total NMTC notes payable	9,820,000	9,820,000
Less: Unamortized debt issuance costs	(495,823)	(513,691)
NMTC notes payable, net	$ 9,324,177	$ 9,306,309

Continued

Note 13 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following at December 31:

	2018	2017
Subject to specified purpose or period:		
Property maintenance reserves	$ 1,566,765	$ 1,433,556
Behavioral health and children's programing	132,948	-
Residential rehabilitation program	86,529	7,469
Clinical counseling program	77,462	279,119
Vocational program	77,462	96,945
Case managers for Family Place and Garden Place	29,937	-
Strategic planning	12,639	30,000
Special events - future periods	-	10,000
Total subject to specified purpose or period	1,983,742	1,857,089
Subject to restriction in perpetuity	293,195	293,195
Total net assets with donor restrictions	$ 2,276,937	$ 2,150,284

Note 14 - Net Assets Released From Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by the donors. The net assets released from donor restriction are as follows:

	2018	2017
Clinical counseling program	$ 279,119	$ 191,577
Property maintenance reserves	170,629	-
Vocational program	96,945	52,606
Strategic planning	17,361	-
Special events - future periods	10,000	15,000
Residential rehabilitation program	7,469	71,393
Capital expansion and improvements	-	1,512,401
Jane Cizik Garden Place case management	-	50,000
Net assets released from donor restrictions	$ 581,523	$ 1,892,977

Continued

Note 15 - Endowment Fund

The Home has a donor-restricted endowment fund for facility maintenance which is maintained in accordance with explicit donor stipulations. The Board of Directors of The Home 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. The Home classifies net assets associated with the donor-restricted endowment as net assets with donor restrictions.

In accordance with TUPMIFA, The Home considers the following factors in making a determination to appropriate for expenditure or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of The Home and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of The Home
- The investment policies of The Home

The Home has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding 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 results that preserve the inflation-adjusted purchasing power of the assets. To satisfy its long-term rate-of-return objectives, The Home 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 Home targets a diversified portfolio to achieve its long-term objectives within prudent risk constraints. The Home has adopted a policy that the maximum distribution from the endowment fund each year is the lesser of five percent of the market value of the endowment fund or the investment return for the previous year. In establishing this policy, The Home considered the long-term expected return on its endowment.

Continued

Note 15 - Endowment Fund (Continued)

Endowment net assets consist of the following at December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor restricted gift amount required to be maintained in perpetuity by donor	$ -	$ 293,195	$ 293,195
Accumulated investment gains	-	105,769	105,769
Total	$ -	$ 398,964	$ 398,964

Endowment net assets consist of the following at December 31, 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor restricted gift amount required to be maintained in perpetuity by donor	$ -	$ 293,195	$ 293,195
Accumulated investment gains	-	138,486	138,486
Total	$ -	$ 431,681	$ 431,681

Changes in the endowment fund for the years ended December 31, 2018 and 2017 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2017	$ -	$ 399,760	$ 399,760
Investment income	-	36,137	36,137
Investment management fees	-	(4,216)	(4,216)
Endowment net assets, December 31, 2017	-	431,681	431,681
Investment loss	-	(5,932)	(5,932)
Investment management fees	-	(4,540)	(4,540)
Appropriation for expenditure	22,245	(22,245)	-
Expenditure	(22,245)	-	(22,245)
Endowment net assets, December 31, 2018	$ -	$ 398,964	$ 398,964

Continued

Note 16 - Employee Benefit Plan

The Home established a defined contribution plan for its employees. Under this plan, the employee may elect to defer a percentage of eligible compensation, as defined in the plan adoption agreement and subject to limit by Internal Revenue Code regulations. During 2018 and 2017, The Home matched 100% of the participant's contributions, up to 4% of the participant's eligible compensation. The matching contributions made into the defined contribution plan by The Home during 2018 and 2017 were $33,517 and $49,272, respectively.

Note 17 - Commitments and Contingencies

A portion of the development costs of The Home's affordable housing projects has been funded through HOME funds and other governmental grants or performance-based loans. These agreements have various restrictive covenants, including operating and financial constraints such as limitations on transfer or sale of the properties or additional borrowings and required replacement and other reserves. These sources of funding generally place specific long-term restrictions on the properties as to their operation as affordable housing. Should these restrictions not be met in the future, The Home would be responsible for refunding all or a portion of these proceeds to the government. A liability for such repayment is not reported in these consolidated financial statements because management believes the properties are being operated in accordance with such restrictions.

<u>Jane Cizik Garden Place</u>

This property was funded in part by a $2,500,000 HOME grant from the City of Houston, a $1,009,500 HOME grant from Harris County, and a $400,000 grant from the U.S. Department of Housing and Urban Development. Under the terms of the grants, these amounts and accrued interest will be forgiven 20 years after project completion (in 2028, 2028 and 2029, respectively), provided The Women's Home continues to comply with the terms of the agreements. The development is subject to Land Use Restriction Agreements for each of the funding sources.

<u>Adele and Ber Pieper Family Place (Hammerly LP)</u>

This property was funded in part by a $3,500,000 HOME grant from the City of Houston. Under the terms of the grant agreement, this amount plus accrued interest will be forgiven 20 years after completion of the facility (in 2036), provided that The Women's Home continues to comply with the terms of the agreement.

This property was funded in part by a $500,000 subsidy from the Federal Home Loan Bank of Dallas. Under the terms of the subsidy agreement, principal and interest will be forgiven 15 years after completion of the facility (in 2031), provided that The Women's Home continues to comply with the terms of the agreement.

Note 17 - Commitments and Contingencies (Continued)

Adele and Ber Pieper Family Place (Hammerly LP) (Continued)

This project received a Housing Tax Credit allocation which was sold in return for a limited partnership interest in Hammerly LP. These Housing Tax Credits require compliance with Section 42 of the Internal Revenue Code. Failure to maintain compliance with tenant income eligibility and rent limits, or to correct instances of noncompliance within a reasonable time period, could result in recapture of previously claimed tax credits plus interest. The Women's Home is the guarantor of the limited partnership agreement. In connection with this property, Hammerly GP is obligated to pay all excess development costs, as defined.

Hammerly GP is required to establish a $400,000 operating reserve from proceeds of the second and third Investment Partner capital contributions. Hammerly GP is obligated to loan Hammerly LP any funds required to fund operating deficits, beginning with the date breakeven operations, as defined, is achieved and ending on the later of the date on which (i) breakeven operations are maintained over twelve month periods on an annual basis for three consecutive years, and (ii) the operating reserve account balance is at least equal to $400,000. Hammerly GP shall not be obligated to fund more than $625,000 of operating deficits in the aggregate. Operating Deficit Loans bear no interest and are repayable from net cash flow, as defined. Hammerly GP shall not be required to make an Operating Deficit Loan unless the operating reserve has been depleted to zero. As of December 31, 2018, the operating reserve held $58,513. Hammerly GP is required to fund a supplemental operating reserve account from distributions of net cash flow, with such funds maintained throughout the compliance period and used to fund operating deficits, capital improvements and social service expenses. As of December 31, 2018, the supplemental operating reserve had not been funded.

Mabee WholeLife™ Service Center

This facility was completed during 2017 and was funded in part by a $1,630,000 grant agreement with the City of Houston. The grant agreement requires that the facility be used as a social service center for a period of five years after date of completion. During 2016, The Women's Home secured NMTC financing to construct the Mabee WholeLife™ Service Center. The Home partnered with Capital One, N.A. and Corporation for Supportive Housing in this transaction. The NMTC program carries a seven year compliance period, during which time The Home will be responsible to provide services as agreed in financing documents.

Continued

Note 18 - Future Rental Income

Leases are maintained with tenants at the Mabee WholeLife™ Service Center through August 2023 and generated approximately $133,000 of rental income for the year ended December 31, 2018. Future rental income for these leases are as follows as of December 31, 2018:

Years Ending December 31,	Amount
2019	$ 139,275
2020	120,745
2021	120,745
2022	120,745
2023	80,497
Total	$ 582,007

Note 19 - Noncontrolling Ownership Interest

Noncontrolling ownership interest represents the limited partners' ownership in Hammerly LP. For the years ended December 31, 2018 and 2017, the changes in noncontrolling interest are as follows:

	Total	Controlling Interest	Noncontrolling Interest
Balance at January 1, 2017	$ 1,288,607	$ 63	$ 1,288,544
Fiscal year 2017 activity:			
Contributions	8,484,493	-	8,484,493
Change in noncontrolling interest (net loss)	(1,187,184)	(119)	(1,187,065)
Balance at December 31, 2017	8,585,916	(56)	8,585,972
Fiscal year 2018 activity:			
Change in noncontrolling interest (net loss)	(721,437)	(72)	(721,365)
Balance at December 31, 2018	$ 7,864,479	$ (128)	$ 7,864,607

Remaining capital contribution installment payments are payable upon the achievement of certain financing, operating and reporting milestones, as defined. Profits, losses and tax credits are generally allocated to the partners in accordance with their ownership interests. Net cash flow from operations, as defined, shall be distributed annually as defined.

Continued

Note 20 - Liquidity and Availability of Resources

The following table reflects The Home's financial assets at December 31, 2018, reduced by amounts not anticipated to be available for general expenditure within one year of the statement of financial position date. Financial assets are considered unavailable when illiquid or they are not convertible to cash within one year. Financial assets are available for general expenditure if they do not have donor or other restrictions limiting their use through purpose restrictions.

Financial assets available within one year:	Amount
Cash and cash equivalents	$ 1,154,687
Pledges receivable	339,421
Government grants receivable	46,970
Developer fee receivable	1,050,327
Investments	1,616,213
Total financial assets available within one year	4,207,618
Amounts unavailable for general expenditure within one year:	
Restricted by donors with purpose restrictions	(1,983,742)
Restricted by donors in perpetuity	(293,195)
Contractual reserves for Hammerly LP	(400,000)
Total financial assets available to meet cash needs for general expenditures within one year	$ 1,530,681

The Home regularly monitors liquidity required to meet its operational needs and other contractual commitments. The Home has various sources of liquidity, including cash, cash equivalents and investments, and has an available line of credit. Excess funds are invested for long-term appreciation and current income, but remain available to be spent at the Board's discretion.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, The Home considers all expenditures related to its ongoing program activities and support services to be general expenditures. The Home strives to operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restricted resources.

Note 21 - Subsequent Events

Management has evaluated subsequent events through June 6, 2019, the date which the consolidated financial statements were available to be issued. Management has determined that there are no subsequent events requiring recognition or disclosure in the consolidated financial statements.

*** * * End of Notes * * ***