

SEARCH HOMELESS SERVICES

FINANCIAL STATEMENTS

JUNE 30, 2022

(With Summarized Comparative Information for 2021)

(With Independent Auditor's Report Thereon)

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 **DoerenMayhew**
CPAS AND ADVISORS

SEARCH HOMELESS SERVICES

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
of **SEARCH Homeless Services**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SEARCH Homeless Services (SEARCH), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SEARCH as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SEARCH and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 the 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 SEARCH's ability to continue as a going concern for one year after the date that the financial statements are issued.

Report on the Audit of the Financial Statements (Continued)

Auditor's 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 auditor's 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 GAAS 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 GAAS 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 SEARCH'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 SEARCH'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 on Summarized Comparative Information

We have previously audited SEARCH's June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 18, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on the Audit of the Financial Statements (Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2022 on our consideration of SEARCH'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 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 SEARCH's internal control over financial reporting and compliance.



Houston, Texas
November 21, 2022

SEARCH HOMELESS SERVICES

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2022

(with comparative financial information for 2021)

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Cash and cash equivalents (Note 11)	\$ 882,301	\$ 1,230,629
Government grants receivable	1,965,316	1,163,238
Contributions receivable, net (Notes 3 and 11)	707,085	748,549
Prepaid expenses and other assets (Note 10)	55,806	70,720
Operating investments (Note 4)	6,242,622	7,682,747
Contributions receivable restricted to capital projects, net (Note 3)	24,457	27,185
Endowed investments (Notes 4 and 8)	1,300,000	1,300,000
Property and equipment, net (Note 5)	10,890,749	11,159,430
 Total assets	 <u>\$ 22,068,336</u>	 <u>\$ 23,382,498</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 392,393	\$ 252,213
Accrued expenses	833,533	917,044
 Total liabilities	 <u>1,225,926</u>	 <u>1,169,257</u>
Net assets:		
Without donor restrictions	14,758,741	15,587,935
With donor restrictions:		
Purpose/time (Note 6)	4,783,669	5,325,306
Perpetual (Note 8)	1,300,000	1,300,000
 Total net assets	 <u>20,842,410</u>	 <u>22,213,241</u>
 Total liabilities and net assets	 <u>\$ 22,068,336</u>	 <u>\$ 23,382,498</u>

See accompanying notes to financial statements.

SEARCH HOMELESS SERVICES

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2022 (with summarized financial information for 2021)

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Contributions, revenue, and other support:				
Contributions of cash and other financial assets	\$ 2,524,651	\$ 616,787	\$ 3,141,438	\$ 3,333,691
Contributions of nonfinancial assets (Note 9)	57,107	-	57,107	56,485
Federal grants and contracts	6,093,160	-	6,093,160	4,954,833
State grants and contracts	570,892	-	570,892	277,136
Other government grants and contracts	239,443	-	239,443	312,838
Private grants and contracts	577,590	-	577,590	617,503
Special events (2022 net of direct expenses of \$93,656; 2021 net of direct expenses of \$69,241)	1,592,710	-	1,592,710	1,325,202
Federal loan forgiveness	-	-	-	1,355,000
Net investment (loss) income	(707,292)	-	(707,292)	882,136
Other income	118,415	-	118,415	35,531
Net assets released from restrictions (Note 7)	1,158,424	(1,158,424)	-	-
Total contributions, revenue, and other support	12,225,100	(541,637)	11,683,463	13,150,355
Expenses:				
Program services:				
Engagement and stabilization	2,236,789	-	2,236,789	1,866,866
Education child	1,310,668	-	1,310,668	1,428,719
Family services	826,035	-	826,035	450,700
Housing plus	7,012,951	-	7,012,951	6,513,241
Total program services	11,386,443	-	11,386,443	10,259,526
Supporting services:				
Management and general	1,070,450	-	1,070,450	1,112,527
Fundraising	285,265	-	285,265	277,674
Facilities	312,136	-	312,136	349,904
Total supporting services	1,667,851	-	1,667,851	1,740,105
Total expenses	13,054,294	-	13,054,294	11,999,631
Change in net assets	(829,194)	(541,637)	(1,370,831)	1,150,724
Net assets at beginning of year	15,587,935	6,625,306	22,213,241	21,062,517
Net assets at end of year	\$ 14,758,741	\$ 6,083,669	\$ 20,842,410	\$ 22,213,241

See accompanying notes to financial statements.

SEARCH HOMELESS SERVICES

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2022 (with summarized financial information for 2021)

	2022										
	Program Services					Supporting Services					
	Engagement and Stabilization	Education Child	Family Services	Housing Plus	Program Services Total	Management and General	Fundraising	Facilities	Supporting Services Total	Total	2021
Salaries	\$ 1,554,203	\$ 758,947	\$ 491,613	\$ 3,914,008	\$ 6,718,771	\$ 546,515	\$ 150,737	\$ 81,960	\$ 779,212	\$ 7,497,983	\$ 6,521,768
Employee Benefits	285,090	167,821	69,857	850,461	1,373,229	72,551	22,820	13,435	108,806	1,482,035	1,414,384
Payroll Taxes	119,687	59,745	36,650	301,788	517,870	37,311	11,488	6,201	55,000	572,870	500,441
Total salaries and related expenses	1,958,980	986,513	598,120	5,066,257	8,609,870	656,377	185,045	101,596	943,018	9,552,888	8,436,593
Direct assistance to individuals:											
Housing	268	-	20,283	944,093	964,644	-	-	-	-	964,644	1,051,396
Transportation	20,577	-	1,000	55,075	76,652	-	-	-	-	76,652	71,778
Donated direct assistance	33,164	13,476	2,347	8,120	57,107	-	-	-	-	57,107	56,484
Other including stipends	7,499	8,000	132,990	28,185	176,674	-	-	-	-	176,674	50,515
Food	1,697	23,390	91	18,438	43,616	-	-	-	-	43,616	40,342
Supplies	10,099	-	2,913	2,790	15,802	-	-	-	-	15,802	39,854
Professional fees and contract services	31,428	16,284	40,573	712,506	800,791	150,451	35,010	4,138	189,599	990,390	949,140
Equipment and furniture	27,477	8,743	4,963	33,061	74,244	58,802	7,632	8,220	74,654	148,898	268,248
Utilities and maintenance	34,907	92,893	1,257	25,934	154,991	23,768	2,529	82,409	108,706	263,697	238,997
Telephone and other communications	21,370	11,101	3,391	35,832	71,694	34,184	3,927	3,289	41,400	113,094	110,949
Insurance and taxes	14,032	13,628	1,879	23,438	52,977	10,690	2,650	9,366	22,706	75,683	76,851
Travel and vehicle expense	12,754	7,595	142	14,584	35,075	71	14	31,195	31,280	66,355	51,228
Supplies	5,953	13,829	270	6,796	26,848	12,773	4,433	2,420	19,626	46,474	46,266
Training and conferences	4,921	8,296	15,286	1,603	30,106	24,295	7,511	3,358	35,164	65,270	37,067
Lease expense	-	19,801	-	-	19,801	-	-	9,488	9,488	29,289	26,851
Printing and publications	891	-	61	605	1,557	5,186	41	-	5,227	6,784	5,810
Postage	12	1	81	382	476	1,465	4,442	10	5,917	6,393	3,687
Interest expense	-	-	-	-	-	-	-	-	-	-	56
Miscellaneous	4,133	2,406	388	934	7,861	38,607	26,310	5,915	70,832	78,693	85,469
	2,190,162	1,225,956	826,035	6,978,633	11,220,786	1,016,669	279,544	261,404	1,557,617	12,778,403	11,647,581
Depreciation of property and equipment	46,627	84,712	-	34,318	165,656	53,781	5,721	50,732	110,234	275,890	352,050
Total expenses	\$ 2,236,789	\$ 1,310,668	\$ 826,035	\$ 7,012,951	\$ 11,386,442	\$ 1,070,450	\$ 285,265	\$ 312,136	\$ 1,667,851	\$ 13,054,293	\$ 11,999,631

See accompanying notes to financial statements.

SEARCH HOMELESS SERVICES

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2022 (with comparative financial information for 2021)

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (1,370,831)	\$ 1,150,724
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	275,890	352,050
Payroll Protection Program Loan forgiveness	-	(1,355,000)
Write off of pledges receivable	-	15,000
Net change in present value adjustment on contributions receivable	(945)	157
Net unrealized and realized loss (gain) on investments	724,653	(779,978)
Changes in operating assets and liabilities:		
Contributions and grants receivable	(759,669)	(379,083)
Prepaid expenses and other assets	14,914	24,646
Accounts payable and accrued expenses	56,669	(21,016)
Net cash used by operating activities	(1,059,319)	(992,500)
Cash flows from investing activities:		
Purchases of equipment	(7,209)	-
Purchases of investments	(8,400,833)	(1,284,751)
Proceeds from sales of investments	9,116,305	1,421,998
Net cash provided by investing activities	708,263	137,247
Cash flows from financing activities -		
Proceeds from contributions restricted to capital projects	2,728	27,500
Net cash provided by financing activities	2,728	27,500
Net decrease in cash and cash equivalents	(348,328)	(827,753)
Cash and cash equivalents, beginning of year	1,230,629	2,058,382
Cash and cash equivalents, end of year	\$ 882,301	\$ 1,230,629

See accompanying notes to financial statements.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 1 - Description of Organization

For more than thirty years, SEARCH Homeless Services (SEARCH) has been serving those who are homeless with compassion, dignity, and respect. SEARCH was founded in 1989 by a group of community volunteers who were deeply concerned about Houston's growing homeless population. The organization began as a day shelter providing basic support services including showers, laundry, and hot meals to address the immediate needs of individuals living on the streets.

Since that time, SEARCH has evolved and grown into the leading organization in Houston providing case management services to help homeless individuals and families find their way back home. Through a combination of experience and evidence-based practices, SEARCH's staff engage people from the street, support their successful movement into stable housing, and once housed, build greater self-sufficiency through increased income, improved mental and physical health, and connection to community. Going beyond services that simply manage homelessness, SEARCH is working to end the homeless experience.

In working to make homelessness rare, brief, and nonrecurring, SEARCH is also a leader and key partner in The Way Home, a community-wide effort to end homelessness in Houston. Thanks to this collaboration of more than seventy homeless service providers, government agencies, and public and private funders, SEARCH and our community partners have reduced homelessness by more than half, housed over 25,000 individuals and families since 2011, and become a model for the rest of the nation in how to address homelessness. Due to SEARCH's depth of experience serving this vulnerable population, SEARCH fills multiple critical roles in The Way Home's system.

In pursuing SEARCH's mission of providing hope, creating opportunity, and transforming lives, our ultimate vision is a Houston without homelessness. SEARCH meets our clients where they are and helps them through each step of their journey from homelessness back to housing and stability through our core service areas:

Engagement and Stabilization: SEARCH's Outreach Team often serves as the first point of engagement for individuals living on the streets. Within our Outreach Team are Housing Assessors, who evaluate clients to assess and match housing needs. Once a client is approved for housing, SEARCH's Housing Navigators facilitate the process of finding and moving into a home. Additionally, our SOAR and PATH specialists help connect clients to disability benefits and mental health services that will help them to acquire better healthcare, increase their income, and improve their overall health, stability, and quality of life.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 1 - Description of Organization (Continued)

Education: Started in 1992, SEARCH's House of Tiny Treasures (HTT) preschool provides an early childhood education to children, ages two to five, who have experienced the trauma of homelessness. By providing full-day, year-round care, HTT also provides much-needed support to parents endeavoring to get their lives back on track and helps them to be successful in their income and educational pursuits. A developmentally appropriate curriculum, nutritious meals, transportation, and intensive art, play, and speech therapy address students' needs and prepare them to be successful in kindergarten and beyond. With this stronger foundation, the second generation has a higher chance to catch up to more-advantaged children and to perform well in school and later in life. HTT also provides support and assistance for the parents, bringing stability to the entire family. By investing in the next generation, HTT is striving to break the intergenerational cycle of poverty and homelessness and help our at-risk students heal, thrive, and reach their full potential. HTT can serve up to sixty-four children at any given time.

Family Services: As the community strives to end family homelessness, SEARCH's new Family Services division provides families that are, or recently have been homeless, with support designed to strengthen and stabilize their lives. These families need assistance to help them obtain housing as quickly as possible and connect to other services to remain stably housed. SEARCH's Family Services Case Managers utilize two-generation approaches that emphasize supportive services in the areas of education, employment, economic support, social capital, and health and well-being to create a legacy of economic security that passes from one generation to the next.

Housing Plus: SEARCH utilizes the nationally recognized Housing First model, which is based on the premise that stable housing is the first step on a path toward self-sufficiency. Knowing that newly housed residents will need ongoing attention and guidance to stabilize their lives, improve their health, and remain in housing, SEARCH co-locates our staff members at the various housing sites to provide skilled case management for our clients. Once clients are housed, SEARCH case managers provide ongoing on-site case management, tailored specifically to each individual client, to help them gain greater stability and self-sufficiency and sustain their housing.

Ensuring that our clients have steady income is a key step in helping homeless individuals and families regain their stability. Once clients move into housing, SEARCH works with them to ensure that they have a stable source of income to support their daily, ongoing needs. Such income could come through employment, social security or disability benefits, or other resources. We also have integrated employment services into our housing programs to further assist our clients in achieving stability and self-sufficiency.

Today, SEARCH has more than 900 clients living in our various housing programs with whom we continue to work on an ongoing basis.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). SEARCH's resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor or grantor-imposed stipulations. Net assets without donor restrictions may be designated for specific purpose by action of the Board of Directors.
- *Net assets with donor restrictions* - Net assets subject to donor or grantor-imposed stipulations. Some restrictions are temporary in nature, such as those that will be met either by action and/or passage of time. Other restrictions are perpetual in nature, where the donors of these assets permit SEARCH to use all of, or part of, the income earned on the related investments for general and operating purposes.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in accordance with GAAP. Accordingly, such information should be read in conjunction with SEARCH's financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, SEARCH considers all investments with an initial maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2022 or 2021.

Contributions and Grants Receivable

Contributions are recorded as revenue in the year they are received unless they contain a conditional promise to give. Contributions 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. SEARCH uses the allowance method to determine uncollectible amounts. The allowance is based on prior years' experience and management's analysis of specific promises to give.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 2 - Summary of Significant Accounting Policies (Continued)

Investments and Investment Income

Investments are recorded at fair value. Investment income is reported in the statement of activities 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. It is SEARCH's policy to record investment income associated with net assets with donor restrictions as net assets without donor restrictions when expended in the same period.

Property and Equipment

Property and equipment are recorded at cost if purchased or, if donated, at fair market value at the date of the gift. Depreciation is computed using the straight-line method over estimated useful lives of the assets ranging from three to thirty years. Individual items of furniture and equipment valued at less than \$2,000 are expensed.

Revenue Recognition

Contributions are recognized when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give are those that contain a measurable performance obligation or other barrier, as well as a right of return, and are not recognized until the conditions on which they depend have been met. At June 30, 2022 and 2021, SEARCH had no conditional contributions.

Contributed property and equipment are reflected at their estimated fair value at the date of receipt. Contributed property and equipment is 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.

Government grants represent cost-reimbursable federal, state and local contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when SEARCH has incurred expenditures in compliance with specific contract or grant provisions. Any amounts received prior to incurring qualifying expenditures are reported as refundable advances. SEARCH was awarded cost-reimbursable grants with remaining amounts of \$3,953,725 and \$4,659,980 that have not been recognized at June 30, 2022 and 2021, respectively, because qualifying expenditures have not yet been incurred. No advance payments were received as of June 30, 2022 or 2021.

Special events revenue is recognized when the event is held.

Contributed merchandise represents donations of furniture, clothing and merchandise which are valued at the estimated fair market value at the date of receipt and recorded as a contribution and expense.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Contributed services that meet the revenue recognition requirements of GAAP are recorded at estimated fair value when received. To be recognized as revenue, the donated services must either (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. A number of volunteers, including the Board of Directors, have made significant contributions of time to SEARCH's policy making, program, and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services and, accordingly, is not reflected in the accompanying financial statements.

Net Assets with Donor Restrictions: Purpose/Time

SEARCH records contributions as net assets with donor restrictions: purpose/time if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions. It is SEARCH's policy to record contributions with donor restrictions received and expended in the same period as net assets without donor restrictions.

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Expenses which are directly associated with a particular program are charged to that program. Management and general includes administration, finance, operations, IT and program support activities. Fundraising includes the development department and costs associated with raising contributions. Facilities includes costs of maintaining the property and equipment and leases, which are not allocated to specific programs. 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.

Income Taxes

SEARCH is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business activities. GAAP requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. Management of SEARCH believes that all significant tax positions utilized by SEARCH would more likely than not be sustained upon examination. As of June 30, 2022, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2019 forward (with limited exceptions). There are no examinations for any tax periods currently in progress.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 2 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

New Accounting Pronouncement

Effective July 1, 2021, SEARCH adopted Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, on a retrospective basis. ASU No. 2020-07 provides new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The adoption of this ASU resulted in no significant changes to SEARCH's financial reporting.

Subsequent Events

Management has evaluated subsequent events through November 21, 2022, the date which the financial statements were available to be issued.

Note 3 - Contributions Receivable

Contributions receivable at June 30 are as follows:

	<u>2022</u>	<u>2021</u>
Amounts due in:		
One year	\$ 712,262	\$ 727,309
Two to five years	<u>20,000</u>	<u>50,000</u>
Total contributions receivable	732,262	777,309
Discount to present value, 3.25% interest rate	<u>(630)</u>	<u>(1,575)</u>
Total contributions receivable, net	<u>\$ 731,632</u>	<u>\$ 775,734</u>
Contribution receivable, net	\$ 707,085	\$ 748,549
Contribution receivable restricted to capital projects, net	<u>24,547</u>	<u>27,185</u>
Total contributions receivable, net	<u>\$ 731,632</u>	<u>\$ 775,734</u>

The discount will be recognized as contribution income as the discount is amortized using an effective yield over the duration of the contribution. Uncollectible contributions receivable are expected to be minimal, and therefore, no allowance was made for uncollectible amounts at June 30, 2022 or 2021.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 4 - Fair Value Measurements

GAAP requires that certain assets and liabilities be reported at 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. GAAP characterizes inputs used in determining fair value using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities that the organization has the ability to access as of the reporting date.
- Level 2 - Other significant observable inputs, including quoted prices for similar assets or liabilities in active markets or in markets not considered to be active.
- Level 3 - Inputs that are not observable and are significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis at June 30, 2022 and 2021. There have been no changes in methodologies used at June 30, 2022 from June 30, 2021.

Mutual funds and exchange traded funds are valued at the year-end closing price as reported on the active market in which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 4 - Fair Value Measurements (Continued)

Financial instruments measured at fair value on a recurring basis at June 30, 2022 were as follows:

	Level 1	Level 2	Level 3	Total
Exchange traded funds:				
Domestic equity	\$ 1,008,160	\$ -	\$ -	\$ 1,008,160
Emerging markets	127,409	-	-	127,409
International equity	376,227	-	-	376,227
Total exchange traded funds	1,511,796	-	-	1,511,796
Mutual funds:				
Domestic equity	242,294	-	-	242,294
Fixed intermediate duration	587,125	-	-	587,125
Global equity	389,346	-	-	389,346
Global fixed income	604,040	-	-	604,040
International equity	337,184	-	-	337,184
Money market	3,870,837	-	-	3,870,837
Total mutual funds	6,030,826	-	-	6,030,826
Total assets at fair value	\$ 7,542,622	-	-	\$ 7,542,622

Financial instruments measured at fair value on a recurring basis at June 30, 2021 were as follows:

	Level 1	Level 2	Level 3	Total
Exchange traded funds:				
Domestic equity	\$ 1,241,043	\$ -	\$ -	\$ 1,241,043
Foreign equity	558,016	-	-	558,016
Fixed income	256,840	-	-	256,840
Total exchange traded funds	2,055,899	-	-	2,055,899
Mutual funds:				
Domestic equity	699,797	-	-	699,797
Foreign equity	405,720	-	-	405,720
Fixed income	833,079	-	-	833,079
Multi-strategy	258,016	-	-	258,016
Money market	4,730,236	-	-	4,730,236
Total mutual funds	6,926,848	-	-	6,926,848
Total assets at fair value	\$ 8,982,747	-	-	\$ 8,982,747

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 5 - Property and Equipment

Property and equipment consist of the following at June 30:

	2022	2021
Land	\$ 2,751,288	\$ 2,751,288
Building	7,196,717	7,196,717
Childcare facility	2,366,523	2,366,523
Equipment and furniture	666,051	658,843
Computer software	18,411	18,411
Vehicles	360,738	381,901
Total at cost	13,359,728	13,373,683
Less: accumulated depreciation	(2,468,979)	(2,214,252)
Total property and equipment, net	\$ 10,890,749	\$ 11,159,430

Depreciation expense for the years ended June 30, 2022 and 2021 was \$275,890 and \$352,049, respectively.

Note 6 - Net Assets with Donor Restrictions: Purpose/Time

At June 30, net assets with donor restrictions: purpose/time are available for the following:

	2022	2021
Homeless families	\$ 3,826,666	\$ 4,420,270
House of Tiny Treasures	310,027	98,196
Housing plus services	213,806	166,700
Engagement services	209,075	396,876
Housing and community care	40,770	-
Family First	19,524	10,000
Volunteer projects	8,171	12,663
Client pet expenses	4,740	4,903
Furniture fund	890	11,382
Timing restrictions	150,000	-
Capital campaign - other	-	135,419
Capital campaign - construction	-	50,530
Navigators	-	18,367
Total net assets with donor restrictions: purpose/time	\$ 4,783,669	\$ 5,325,306

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 7 - Net Assets Released From Restrictions

Net assets were released from restrictions during 2022 and 2021 by incurring expenses satisfying the restricted purposes specified by the donor as follows:

	<u>2022</u>	<u>2021</u>
Homeless families	\$ 593,604	\$ 382,105
Engagement services	195,903	287,906
Navigators	153,787	53,100
House of Tiny Treasures	90,545	19,527
Housing plus services	53,909	7,308
Capital campaign - construction	50,530	-
Furniture fund	10,491	15,179
Volunteer projects	9,492	13,000
Client pet expenses	163	-
Timing restrictions	-	150,000
COVID relief	-	93,542
Client assistance	-	5,590
Snacks for House of Tiny Treasures	-	<u>732</u>
Total net assets released from restrictions	<u>\$ 1,158,424</u>	<u>\$ 1,027,989</u>

Note 8 - Endowment Funds

SEARCH's endowment consists of a \$1,000,000 fund established in March 2006 by the Swalm Foundation and a \$300,000 fund established in July 2020 by the Rolke Family. Both endowment funds are for the general operations of SEARCH.

Interpretation of Relevant Law - The Board of Directors of SEARCH 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, SEARCH classifies as perpetual with donor restrictions net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in perpetual with donor restrictions is classified as net assets without donor restrictions until those amounts are appropriated for expenditure by SEARCH in a manner consistent with the standard of prudence prescribed by TUPMIFA.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 8 - Endowment Funds (Continued)

Return Objectives and Risk Parameters - Endowment funds are maintained in an investment account which is managed by an independent financial firm that follows guidance provided in an investment policy approved by the Board of Directors. SEARCH has adopted investment 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 this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that are at least five percentage points more than the rate of inflation as measured by the Consumer Price Index. To satisfy its long-term rate-of-return objectives, SEARCH 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). SEARCH 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. Actual returns in any given year may vary from this amount.

Spending Policy - In accordance with TUPMIFA, SEARCH considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of SEARCH 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 SEARCH
- The investment policies of SEARCH

SEARCH has adopted a policy whereby endowed amounts greater than the original corpus may be distributed upon Board of Directors' approval. In establishing this policy, SEARCH considered the long-term expected return on its endowment. No appropriations were made in 2022 and \$1,500 were made in 2021.

Endowment Net Asset Composition and Changes

As of June 30, 2022, endowment net assets consist of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds:			
Original donor-restricted gift amount required to be maintained in perpetuity	\$ -	\$ 1,300,000	\$ 1,300,000
Accumulated investment gains	<u>443,269</u>	<u>-</u>	<u>443,269</u>
Total endowment net assets	<u>\$ 443,269</u>	<u>\$ 1,300,000</u>	<u>\$ 1,743,269</u>

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 8 - Endowment Funds (Continued)

The changes in endowment funds for the year ended June 30, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Perpetual	Total
Endowment net assets, June 30, 2021	\$ 773,551	\$ -	\$ 1,300,000	\$ 2,073,551
Contributions	-	-	-	-
Investment loss, net	(330,282)	-	-	(330,282)
 Endowment net assets, June 30, 2022	 <u>\$ 443,269</u>	 <u>\$ -</u>	 <u>\$ 1,300,000</u>	 <u>\$ 1,743,269</u>

As of June 30, 2021, endowment net assets consist of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount required to be maintained in perpetuity	\$ -	\$ 1,300,000	\$ 1,300,000
Accumulated investment gains	773,551	-	773,551
 Total endowment net assets	 <u>\$ 773,551</u>	 <u>\$ 1,000,000</u>	 <u>\$ 2,073,551</u>

The changes in endowment funds for the year ended June 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Perpetual	Total
Endowment net assets, June 30, 2020	\$ 359,524	\$ -	\$ 1,000,000	\$ 1,359,524
Contributions	-	-	300,000	300,000
Investment return, net	414,027	-	-	414,027
 Endowment net assets, June 30, 2021	 <u>\$ 773,551</u>	 <u>\$ -</u>	 <u>\$ 1,300,000</u>	 <u>\$ 2,073,551</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TUPMIFA requires SEARCH to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2022 or 2021.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 9 - Contributed Nonfinancial Assets

SEARCH received the following contributions of nonfinancial assets for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Food and resource pantry	\$ 33,082	\$ 15,190
Preschool events and enrichment	11,297	8,005
Back-to-school and holiday wish list	8,826	18,158
Clothing closet	3,392	10,632
Other event supplies	<u>510</u>	<u>4,500</u>
Total	<u>\$ 57,107</u>	<u>\$ 56,485</u>

SEARCH maintains a pantry for clients newly moving into their own apartments to provide them with basic groceries, cleaning supplies and personal hygiene items upon move-in. Contributed food items, including bottled water, were also distributed by SEARCH's Outreach Team to people living on the streets to supplement their food intake.

Students at SEARCH's House of Tiny Treasures have the opportunity to participate in a number of enrichment programs made possible through in-kind gifts. Examples include summer Splash Days requiring donated bathing suits and sandals; family dinners utilizing donated refreshments; outings to local museums and sporting events relying on donated tickets; seasonal parties for which volunteers donate all activity supplies; and reading programs using donated books. We also receive donated classroom supplies and landscaping materials that allow us to maintain our campus environment.

Children in SEARCH programs are eligible to participate in back-to-school and holiday wish list initiatives which are funded with in-kind donations. Through the back-to-school program, children receive donated backpacks stuffed with school supplies appropriate for their grade level. Through the holiday wish list program, children receive three donated presents that donors provide after receiving parent requests.

SEARCH operates a clothing closet stocked with donated items. Clothing, shoe, and luggage donations are made available to clients visiting that space with their case managers. During the winter months, SEARCH's Street Outreach Team will share donated coats from the closet along with other donated warming items like gloves and blankets with clients experiencing homelessness.

For all donations noted above, estimated fair values were determined using packing slips or receipts accompanying items delivered to SEARCH (takes precedence when available); donors' self-reported estimates on SEARCH's in-kind donation form; or The Salvation Army's Donation Value Guide.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 10 - Commitments and Contingencies

Lease Commitments

SEARCH has entered into apartment, office equipment and ground operating leases that are non-cancelable and expire at various times through 2045. Lease expense for the years ended June 30, 2022 and 2021 was approximately \$894,000 and \$839,000, respectively. Minimum future lease commitments under operating leases with terms of more than one year are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2023	\$ 29,277
2024	29,277
2025	23,272
2026	22,306
2027	21,781
Thereafter	<u>470,938</u>
Total	<u>\$ 596,851</u>

Retirement Plan

SEARCH maintains a defined contribution plan that provides benefits for all eligible employees. SEARCH contributes 2% of eligible employees' compensation plus a matching contribution equal to 50% of the employee's contribution with a maximum match of 2% per year. Contributions of \$158,911 and \$181,219 by SEARCH were charged to expense during the years ended June 30, 2022 and 2021, respectively.

Grant Programs

SEARCH receives significant financial assistance from federal and state government agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits would become a liability of SEARCH. However, in the opinion of management, potential disallowed claims, if any, would not have a material effect on the financial statements.

Building Purchase Agreement

In May 2021, SEARCH entered into an agreement to purchase a building for \$8,000,000. Under the terms of the amended purchase agreement, the closing date was the earlier of (1) fifteen days after SEARCH closes on the sale of its current property, or (2) July 31, 2022. In connection with this purchase agreement, SEARCH committed \$25,000 in earnest money which is reflected in prepaid expenses and other assets on the statements of financial position as of June 30, 2022 and 2021. The purchase agreement expired on July 31, 2022.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 11 - Concentrations of Credit Risk

Contributions

At June 30, 2022, contributions receivable totaling \$332,628 from two donors were in excess individually of 10% of gross total contributions receivable. At June 30, 2021, contributions receivable totaling \$531,000 from four donors were in excess individually of 10% gross total contributions receivable.

Cash in Excess of FDIC Insurance

SEARCH maintains its cash balances in a financial institution where at times, the bank deposits in the financial institution exceed the prevailing federally insured limit per depositor per banking institution. The maximum loss that would have resulted from excess of the total deposits reported by the financial institution over the federally insured amount as of June 30, 2022 and 2021 totaled \$709,047 and \$1,075,366, respectively. SEARCH requires the financial institution with which it does business to provide collateral for amounts exceeding federal insurance coverage. Shares of a pool of mortgage-backed securities were pledged as collateral at June 30, 2022 and 2021 in the amount of \$2,234,428 and \$3,131,076, respectively.

Note 12 - Liquidity and Availability of Resources

The following table reflects SEARCH's financial assets at June 30, 2022 and 2021, 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.

	<u>2022</u>	<u>2021</u>
Financial assets available within one year:		
Cash and cash equivalents	\$ 882,301	\$ 1,230,629
Government grants receivable	1,965,316	1,163,238
Contributions receivable	712,262	727,309
Investments	<u>7,542,622</u>	<u>8,982,747</u>
Total financial assets available within one year	11,102,501	12,103,923
Amounts unavailable for general expenditure within one year:		
Amounts with donor restrictions - purpose/time	(4,783,669)	(5,325,306)
Amounts with donor restrictions - perpetual	<u>(1,300,000)</u>	<u>(1,300,000)</u>
Total financial assets available to meet cash needs for general expenditure within one year	<u>\$ 5,018,832</u>	<u>\$ 5,478,617</u>

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Note 12 - Liquidity and Availability of Resources (Continued)

Management regularly monitors liquidity required to meet operational needs and other contractual commitments. SEARCH has various sources of liquidity, including access to accumulated investment gains of \$443,269 from the endowment funds. For cash flow purposes, SEARCH has a committed demand note in the amount of \$1 million with no expiration date, which it could draw upon in the event of an unanticipated liquidity need.

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