

SEARCH HOMELESS SERVICES

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

(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 Financial Statements

We have audited the accompanying financial statements of SEARCH Homeless Services (SEARCH), a nonprofit organization, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SEARCH's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SEARCH'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 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, the financial statements referred to above present fairly, in all material respects, the financial position of SEARCH Homeless Services as of June 30, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016, 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 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 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
December 22, 2016

SEARCH HOMELESS SERVICES

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 1,133,633	\$ 1,240,626
Government grants receivable	960,009	988,430
Contributions receivable, net (Note 3)	519,848	525,312
Prepaid expenses	53,704	22,793
Investments (Note 4)	1,141,126	1,219,389
Cash and cash equivalents restricted to capital projects	2,089,722	5,237,455
Contributions receivable restricted to capital projects, net (Note 3)	1,143,168	1,946,289
Property and equipment, net (Note 6)	14,065,521	6,106,219
 Total assets	 <u>\$ 21,106,731</u>	 <u>\$ 17,286,513</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 229,939	\$ 348,329
Construction payable	1,610,794	-
Accrued expenses	589,009	487,191
Demand note payable (Note 7)	-	150,000
Notes payable (Note 8)	1,000,000	1,000,000
 Total liabilities	 <u>3,429,742</u>	 <u>1,985,520</u>
Net assets:		
Unrestricted	14,013,803	5,823,554
Temporarily restricted (Note 9)	2,663,186	8,477,439
Permanently restricted (Note 11)	1,000,000	1,000,000
 Total net assets	 <u>17,676,989</u>	 <u>15,300,993</u>
 Total liabilities and net assets	 <u>\$ 21,106,731</u>	 <u>\$ 17,286,513</u>

See accompanying notes to financial statements.

SEARCH HOMELESS SERVICES

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions, revenue, and other support:								
Contributions	\$ 1,169,145	\$ 2,385,473	\$ -	\$ 3,554,618	\$ 967,279	\$ 6,798,190	\$ -	\$ 7,765,469
Federal grants and contracts	2,376,358	-	-	2,376,358	2,668,684	-	-	2,668,684
State grants and contracts	2,953,326	-	-	2,953,326	4,621,474	-	-	4,621,474
Other government grants and contracts	962,117	-	-	962,117	536,025	-	-	536,025
Private grants and contracts	788,304	-	-	788,304	670,146	-	-	670,146
Contributed services and merchandise	2,037,567	-	-	2,037,567	3,210,519	-	-	3,210,519
Special events (2016 net of direct expenses of \$94,851; 2015 net of direct expenses of \$109,964)	958,846	-	-	958,846	853,523	-	-	853,523
Net investment income (Note 5)	(8,162)	-	-	(8,162)	25,530	-	-	25,530
Other income	239,401	-	-	239,401	306,230	-	-	306,230
Net assets released from restrictions (Note 10)	8,199,726	(8,199,726)	-	-	1,353,986	(1,353,986)	-	-
Total contributions, revenue, and other support	19,676,628	(5,814,253)	-	13,862,375	15,213,396	5,444,204	-	20,657,600
Expenses:								
Program services:								
Engagement	3,255,578	-	-	3,255,578	4,317,792	-	-	4,317,792
Stabilization	622,626	-	-	622,626	744,275	-	-	744,275
Education Child	818,174	-	-	818,174	810,944	-	-	810,944
Employment Center	1,644,653	-	-	1,644,653	1,917,528	-	-	1,917,528
Housing Plus	3,291,675	-	-	3,291,675	2,273,673	-	-	2,273,673
Total program services	9,632,706	-	-	9,632,706	10,064,212	-	-	10,064,212
Supporting services:								
Management and general	1,110,401	-	-	1,110,401	999,341	-	-	999,341
Fundraising	180,098	-	-	180,098	232,342	-	-	232,342
Facilities	563,174	-	-	563,174	568,104	-	-	568,104
Total supporting services	1,853,673	-	-	1,853,673	1,799,787	-	-	1,799,787
Total expenses	11,486,379	-	-	11,486,379	11,863,999	-	-	11,863,999
Change in net assets	8,190,249	(5,814,253)	-	2,375,996	3,349,397	5,444,204	-	8,793,601
Net assets at beginning of year	5,823,554	8,477,439	1,000,000	15,300,993	2,474,157	3,033,235	1,000,000	6,507,392
Net assets at end of year	<u>\$ 14,013,803</u>	<u>\$ 2,663,186</u>	<u>\$ 1,000,000</u>	<u>\$ 17,676,989</u>	<u>\$ 5,823,554</u>	<u>\$ 8,477,439</u>	<u>\$ 1,000,000</u>	<u>\$ 15,300,993</u>

See accompanying notes to financial statements.

SEARCH HOMELESS SERVICES

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2016

	Program Services						Supporting Services				
	Engagement	Stabilization	Education Child	Employment Center	Housing Plus	Total	Management and General	Fundraising	Facilities	Total	Total
Salaries and wages	\$ 681,172	\$ 444,601	\$ 495,280	\$ 815,369	\$ 1,885,684	\$ 4,322,106	\$ 633,674	\$ 90,416	\$ 36,838	\$ 760,928	\$ 5,083,034
Payroll taxes	55,168	35,066	40,948	66,268	149,402	346,852	48,311	7,135	3,957	59,403	406,255
Employee benefits	148,026	73,670	95,672	162,675	380,118	860,161	73,205	7,943	11,503	92,651	952,812
Total salaries and related expenses	884,366	553,337	631,900	1,044,312	2,415,204	5,529,119	755,190	105,494	52,298	912,982	6,442,101
Direct assistance to individuals:											
Housing	35,490	503	-	6,711	676,121	718,825	2,000	-	265	2,265	721,090
Food	10,201	2,500	17,489	64,421	13,176	107,787	359	4,083	1,057	5,499	113,286
Transportation	8,586	11,787	1,044	62,005	34,593	118,015	-	-	99	99	118,114
Training	-	-	30	13,025	500	13,555	-	526	-	526	14,081
Supplies	9,019	356	-	76,492	10,665	96,532	-	-	2,977	2,977	99,509
Other	861	33	64	4,501	5,673	11,132	22	-	1,576	1,598	12,730
Donated direct assistance	1,987,816	-	10,000	-	-	1,997,816	-	-	-	-	1,997,816
Medical assistance	-	-	27,132	-	-	27,132	650	-	-	650	27,782
Professional fees and contract services	207,998	20,862	31,131	280,064	43,333	583,388	70,164	12,854	46,545	129,563	712,951
Utilities and maintenance	29,857	2,678	42,131	10,508	26,334	111,508	19,886	8,511	230,383	258,780	370,288
Interest	-	-	-	-	-	-	53,414	-	-	53,414	53,414
Equipment and furniture	10,035	5,613	4,037	10,752	7,916	38,353	35,663	3,284	28,100	67,047	105,400
Training and conferences	580	12,448	3,298	24,739	11,191	52,256	41,326	1,269	414	43,009	95,265
Travel and vehicle expense	7,154	1,642	8,132	3,403	21,709	42,040	1,564	619	19,648	21,831	63,871
Insurance and taxes	8,878	1,805	4,834	5,120	6,060	26,697	14,667	1,775	23,217	39,659	66,356
Supplies	4,628	1,924	10,874	6,875	8,586	32,887	11,586	838	3,129	15,553	48,440
Other donated services	-	-	-	-	-	-	27,218	7,983	1,700	36,901	36,901
Telephone and other communications	2,400	3,141	10,263	4,335	5,755	25,894	6,730	905	500	8,135	34,029
Printing and publications	54	301	1,316	307	610	2,588	1,083	13,819	-	14,902	17,490
Postage	18	50	7	42	31	148	916	2,420	2	3,338	3,486
Lease expense	-	-	3,600	-	-	3,600	12,000	-	-	12,000	15,600
Loan fees	-	-	-	-	-	-	2,468	-	-	2,468	2,468
Miscellaneous	348	1,335	2,018	3,671	2,084	9,456	31,601	14,460	7,791	53,852	63,308
	3,208,289	620,315	809,300	1,621,283	3,289,541	9,548,728	1,088,507	178,840	419,701	1,687,048	11,235,776
Depreciation of property and equipment	47,289	2,311	8,874	23,370	2,134	83,978	21,894	1,258	143,473	166,625	250,603
Total expenses	<u>\$ 3,255,578</u>	<u>\$ 622,626</u>	<u>\$ 818,174</u>	<u>\$ 1,644,653</u>	<u>\$ 3,291,675</u>	<u>\$ 9,632,706</u>	<u>\$ 1,110,401</u>	<u>\$ 180,098</u>	<u>\$ 563,174</u>	<u>\$ 1,853,673</u>	<u>\$ 11,486,379</u>

See accompanying notes to financial statements.

SEARCH HOMELESS SERVICES

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2015

	Program Services						Supporting Services				
	Engagement	Stabilization	Education Child	Employment Center	Housing Plus	Total	Management and General	Fundraising	Facilities	Total	Total
Salaries and wages	\$ 498,076	\$ 489,740	\$ 507,804	\$ 809,441	\$ 1,336,640	\$ 3,641,701	\$ 531,724	\$ 96,904	\$ 45,268	\$ 673,896	\$ 4,315,597
Payroll taxes	43,443	41,179	43,758	69,484	110,024	307,888	36,260	7,757	5,031	49,048	356,936
Employee benefits	113,270	89,303	93,543	169,086	232,342	697,544	65,381	14,489	9,641	89,511	787,055
Total salaries and related expenses	654,789	620,222	645,105	1,048,011	1,679,006	4,647,133	633,365	119,150	59,940	812,455	5,459,588
Direct assistance to individuals:											
Housing	20,395	44,305	360	37,036	453,493	555,589	38	-	-	38	555,627
Food	46,549	6,570	22,035	70,085	9,905	155,144	199	-	537	736	155,880
Transportation	16,992	14,226	-	90,773	29,528	151,519	-	-	-	-	151,519
Training	-	-	-	13,112	-	13,112	-	-	-	-	13,112
Supplies	4,660	-	-	87,769	10,450	102,879	-	-	104	104	102,983
Other	394	27	522	1,068	7,020	9,031	-	8,578	-	8,578	17,609
Donated direct assistance	3,148,817	-	20,987	-	670	3,170,474	-	40,045	-	40,045	3,210,519
Medical assistance	-	292	21,602	65	-	21,959	-	-	-	-	21,959
Professional fees and contract services	284,237	17,328	12,787	507,430	31,504	853,286	96,191	5,087	41,963	143,241	996,527
Utilities and maintenance	41,813	4,479	28,594	10,207	11,020	96,113	17,374	8,873	273,797	300,044	396,157
Interest	-	-	-	-	-	-	89,929	-	-	89,929	89,929
Equipment and furniture	8,673	4,696	3,178	5,845	5,075	27,467	22,914	2,019	11,622	36,555	64,022
Training and conferences	467	9,399	4,784	2,803	2,073	19,526	42,253	1,066	1,107	44,426	63,952
Travel and vehicle expense	13,875	8,756	12,028	1,118	14,479	50,256	1,732	1,101	9,557	12,390	62,646
Insurance and taxes	8,878	3,435	4,649	4,092	4,403	25,457	10,385	1,800	22,815	35,000	60,457
Supplies	14,210	1,920	11,920	7,914	3,204	39,168	7,485	907	1,042	9,434	48,602
Telephone and other communications	3,427	5,754	7,098	3,084	7,010	26,373	10,699	1,094	5,655	17,448	43,821
Printing and publications	256	427	225	261	585	1,754	5,736	2,737	158	8,631	10,385
Postage	8	111	5	35	102	261	1,318	2,054	-	3,372	3,633
Lease expense	-	-	3,600	-	-	3,600	-	-	-	-	3,600
Loan fees	-	-	-	-	-	-	3,534	-	-	3,534	3,534
Miscellaneous	572	305	1,963	2,076	466	5,382	31,034	36,441	7,290	74,765	80,147
	4,269,012	742,252	801,442	1,892,784	2,269,993	9,975,483	974,186	230,952	435,587	1,640,725	11,616,208
Depreciation of property and equipment	48,780	2,023	9,502	24,744	3,680	88,729	25,155	1,390	132,517	159,062	247,791
Total expenses	\$ 4,317,792	\$ 744,275	\$ 810,944	\$ 1,917,528	\$ 2,273,673	\$ 10,064,212	\$ 999,341	\$ 232,342	\$ 568,104	\$ 1,799,787	\$ 11,863,999

See accompanying notes to financial statements.

SEARCH HOMELESS SERVICES

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 2,375,996	\$ 8,793,601
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	250,603	247,791
Contributions restricted to capital projects	(356,524)	(6,029,035)
Discount on contributions receivable	(13,204)	15,368
Net unrealized and realized losses (gains) on investments	37,858	(2,055)
Changes in operating assets and liabilities:		
Contributions and grants receivable	33,885	(764,061)
Other assets	-	40,000
Prepaid expenses	(30,911)	(15,009)
Accounts payable and accrued expenses	(16,572)	243,863
Net cash provided by operating activities	2,281,131	2,530,463
Cash flows used by investing activities:		
Purchases of property and equipment	(6,599,111)	(3,531,681)
Net change in cash and cash equivalents restricted to capital projects	3,147,733	(4,207,298)
Net cash used by investing activities	(3,451,378)	(7,738,979)
Cash flows from financing activities:		
Principal payments on debt	-	(1,024,665)
Proceeds from notes payable	-	150,000
Principal payments on notes payable	(150,000)	-
Purchases of investments	(101,695)	(50,734)
Proceeds from sale of investments	142,100	91,461
Proceeds from contributions restricted to capital projects	1,172,849	5,571,599
Net cash provided by financing activities	1,063,254	4,737,661
Net decrease in cash and cash equivalents	(106,993)	(470,855)
Cash and cash equivalents - beginning of year	1,240,626	1,711,481
Cash and cash equivalents - end of year	\$ 1,133,633	\$ 1,240,626
Supplemental disclosure of cash flow information -		
Cash paid for interest	\$ (34,400)	\$ (46,400)
Supplemental disclosure of non-cash operating activities -		
Contributed services and merchandise	\$ 1,997,816	\$ 3,210,519
Noncash investing and financing activities -		
Purchase of property and equipment through a trade account payable	\$ 1,610,794	\$ -

See accompanying notes to financial statements.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Note 1 - Description of Organization

SEARCH Homeless Services (SEARCH) was chartered in 1988 as a Texas not-for-profit corporation. SEARCH's primary function is to provide the Houston area's homeless community with services and resources needed to enable them to successfully re-enter society.

SEARCH serves the Houston homeless community through the following programs and supportive services:

Engagement Services - a Resource Center provides hot meals, showers, laundry facilities, transportation, case management, mailing address with telephone use, access to other on-site providers and information and referral through full-service day shelter open Monday through Friday. Mobile Outreach provides food, clothing, personal hygiene items, information and short-term case management to homeless persons living on the streets, in encampments and abandoned buildings throughout the Houston area; they may also provide short-term housing assistance when funds are available. Additionally, Housing Assessors/Navigators in support of the community's Coordinated Access System engage homeless individuals and families to assist them with locating and moving into stable housing.

Stabilization Services - provides outreach and intensive case management to homeless persons, many who come with extra challenges or who will only receive short- to medium-term assistance. SEARCH's Stabilization Services team works with individuals to connect them to needed healthcare, disability benefits, stable housing, employment support, and other resources to help keep them from repeating the cycle of homelessness.

- Intensive case management and supportive services are available for persons suffering from severe mental illness and those defined as being chronically homeless: Currently, the targeted individuals include persons who have been homeless for more than one year, or who have experienced homelessness four times within the past three years and have an accompanying disabling condition, as well as homeless persons with severe mental illness. The problems these individuals face and the public services they utilize may cost the community a significant amount in healthcare, judicial processing, and more.
- Disability Specialists (SOAR trained) help individuals who are disabled due to physical or mental conditions obtain financial assistance as a means to supplement other stabilizing resources.

Education Services - provides therapeutic early childhood development and learning at the House of Tiny Treasures, a nationally accredited early childhood education program for pre-school age children that helps prepare young children to succeed in school while their parents attend classes and work.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Note 1 - Description of Organization (Continued)

Employment Services - provides comprehensive employment readiness, job training and placement assistance as well as specialized employment and case management services for homeless persons including veterans. In addition, this program works with people with physical disabilities and mental illness, helping them to access and retain employment. Case management is also provided to homeless persons accessing Rapid Rehousing assistance. During their time in the program, rent is subsidized for an average of six months while participants seek and secure employment or disability benefits to stabilize their lives once assistance is terminated.

Housing Services - assists homeless individuals and families to obtain and/or maintain safe, secure and affordable housing.

- Sixty-nine units of project based permanent supportive housing are offered to homeless families and individuals where at least one adult member of the household has a permanent disability.
- The Scattered-Site program works with households in which at least one adult member is permanently disabled and provides subsidized housing and case management in apartments of their own choosing. Participants may remain in housing indefinitely as long as they comply with program requirements.
- Housing Plus provides case management, referrals, transportation assistance, crisis intervention and other supportive services to single adult residents who were formerly homeless at five permanent housing locations. The program focuses on increasing the housing stability, quality of life and income of residents.

Management and General - services include administration, finance, development, public relations, and general support activities. Certain administrative costs that relate to specific programs have been allocated to such programs.

Fundraising - services relate to the development department in raising general and public contributions.

Facilities - include costs of maintaining the property and equipment not allocated to specific programs.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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. 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 of SEARCH and changes therein are classified and reported as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purpose by action of the Board of Directors.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of SEARCH and/or passage of time. This classification includes contributions, underwriting, and unconditional promises to give for which the ultimate purposes of the proceeds are not permanently restricted.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by SEARCH. Generally, 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.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, SEARCH considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. SEARCH held no cash equivalents as of June 30, 2016 and 2015.

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.

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 unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. It is SEARCH's policy to record temporarily restricted investment income as unrestricted net assets when expended in the same period. Investments are primarily comprised of mutual funds and exchange traded funds, which SEARCH intends on holding for long term as noted in their investment policy.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

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 \$500 are expensed.

Revenue Recognition

SEARCH records contributions and revenue on an accrual basis. SEARCH records revenue from the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give, certain contributed services, and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

Temporarily Restricted Contributions

SEARCH records contributions as temporarily restricted 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, temporarily restricted net assets are reclassified to unrestricted net assets 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 temporarily restricted contributions received and expended in the same period as unrestricted net assets.

Contributed Services and Merchandise

Donations of furniture, clothing and merchandise are valued at the estimated fair market value at the date of receipt and recorded as a contribution and expense. SEARCH also receives donated medical and dental services for their clients from another nonprofit organization. This contribution is valued at estimated fair market value and recorded as a contribution and expense.

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.

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. 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.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

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. However, SEARCH is subject to taxes on unrelated business income. No unrelated business income tax was paid in 2016 or 2015.

Accounting principles generally accepted in the United States of America (GAAP) provide detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. 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, 2016, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2013 forward (with limited exceptions).

Use of Estimates

Financial statements prepared in accordance with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

Note 3 - Contributions Receivable

Unconditional promises to give, net of the discount to present value (at a rate of 3.25%), at June 30 are due to be collected as follows:

	<u>2016</u>	<u>2015</u>
Gross amounts due in:		
One year	\$ 1,048,345	\$ 1,403,363
Two to five years	<u>636,184</u>	<u>1,102,956</u>
Total contributions receivable	1,684,529	2,506,319
Less: discounts to net realizable value	<u>(21,513)</u>	<u>(34,718)</u>
Contributions receivable, net of present value adjustment	<u>\$ 1,663,016</u>	<u>\$ 2,471,601</u>
Contribution receivable, net	\$ 519,848	\$ 525,312
Contribution receivable restricted to capital projects, net	<u>1,143,168</u>	<u>1,946,289</u>
Contributions receivable, net	<u>\$ 1,663,016</u>	<u>\$ 2,471,601</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, 2016 or 2015.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Note 4 - Fair Value Measurements

SEARCH has estimated the fair value of its financial instruments as required by the Fair Value Measurement and Disclosure topic of FASB ASC 820. SEARCH utilizes observable market data when available, or models that utilize observable market data to estimate fair value. In addition to market information, SEARCH incorporates transaction-specific details that, in management's judgment, market participants would utilize in fair value measurement.

The authoritative literature defines fair value as 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 measure date (exit price). FASB ASC 820 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 investments.

Level 2 - Other significant observable inputs (including quoted prices for similar investments in active markets or in markets not considered to be active).

Level 3 - Inputs that are not observable from objective sources (including the organization's own assumptions in determining the fair value of investments).

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, 2016 and 2015. There have been no changes in methodologies used at June 30, 2016 from June 30, 2015.

Money market mutual funds, 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. Money market funds are valued at cost plus accrued interest and are deemed to be actively traded. All of SEARCH's assets measured at fair value are considered to be Level 1 as of June 30, 2016 and 2015.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Note 4 - Fair Value Measurements (Continued)

Financial instruments measured at fair value on a recurring basis at June 30, were considered Level 1 as follows:

	<u>2016</u>	<u>2015</u>
Exchange traded funds:		
Fixed income	\$ 309,792	\$ 307,660
Large-cap equity	254,885	279,962
Mid-cap equity	161,523	181,570
Small-cap equity	113,611	132,579
Blended	82,262	90,579
Foreign equity	<u>62,587</u>	<u>68,880</u>
Total exchange traded funds	<u>984,660</u>	<u>1,061,230</u>
Mutual funds:		
Fixed income	33,335	34,414
Multi-strategy	<u>90,052</u>	<u>88,913</u>
Total mutual funds	<u>123,387</u>	<u>123,327</u>
Money market funds	<u>33,079</u>	<u>34,832</u>
Total assets at fair value	<u>\$ 1,141,126</u>	<u>\$ 1,219,389</u>

The inputs or methodology used to measure fair value are not necessarily indicative of the risk of investing in a particular security. Other financial instruments that are not valued at fair value on a recurring or nonrecurring basis are cash, receivables, payables and note payable. Management believes the carrying amounts of these financial instruments approximate their fair values.

Note 5 - Investment Return

A summary of return on investments consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 35,859	\$ 30,158
Net unrealized (loss) gain	(58,400)	(559)
Net realized gain	20,542	2,614
Advisory fees	<u>(6,163)</u>	<u>(6,683)</u>
Total investment return, net	<u>\$ (8,162)</u>	<u>\$ 25,530</u>

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Note 6 - Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 3,258,188	\$ 3,258,188
Building	9,667,988	2,503,252
Building improvements	2,214,423	2,214,423
Child care facility	273,323	273,323
Equipment and furniture	1,300,394	1,058,598
Computer software	112,531	105,281
Vehicles	394,768	394,768
Construction in progress	<u>1,321,211</u>	<u>525,088</u>
Total at cost	18,542,826	10,332,921
Less: accumulated depreciation	<u>(4,477,305)</u>	<u>(4,226,702)</u>
Total property and equipment, net	<u>\$ 14,065,521</u>	<u>\$ 6,106,219</u>

Depreciation expense for the years ended June 30, 2016 and June 30, 2015 was \$250,603 and \$247,791, respectively.

On July 29, 2013, SEARCH executed a sales contract (the contract) in the amount of \$3,100,000 for the 2505 Fannin building. The closing date of the sale is the earlier of 24 months after the effective date (date at countersignature) or 60 days after SEARCH gives notice to the buyer that they are ready to close. The contract includes an option where SEARCH may borrow \$1,000,000 from the buyer at an interest rate of 5% prior to the closing date. Both the closing date and the loan option may be extended to up to 6 months at no additional cost to SEARCH. As of June 30, 2016, the closing date was still open and SEARCH had executed the loan option (See Note 8).

The construction in progress as of June 30, 2016 included a new House of Tiny Treasures building. The estimated cost of completion as of June 30, 2016 was approximately \$1,026,000.

Note 7 - Demand Note Payable

SEARCH has a demand note payable with a bank with interest rate at prime that is secured by receivables and real estate facility with net book value of \$5,160,138. The demand note has a maximum borrowing base of \$300,000. The outstanding balance was \$0 and \$150,000 for the years ended June 30, 2016 and 2015, respectively.

SEARCH executed an additional demand note during the fiscal year with a bank with interest rate at prime that is secured by a deposit account. The demand note has a maximum borrowing base of \$1,000,000, and no outstanding balance at year ended June 30, 2016.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Note 8 - Notes Payable

The following is a summary of notes payable at June 30:

	<u>2016</u>	<u>2015</u>
Note payable, with interest at a fixed rate of 5%; lump sum payment is due December 1, 2016; secured by deed of trust on land with book value of \$506,900. Original maturity date of May 2015 was extended on July 31, 2016.	\$ 1,000,000	\$ 1,000,000
Total notes payable	1,000,000	1,000,000
Less: current maturities	<u>1,000,000</u>	<u>-</u>
Total notes payable, long term	<u>\$ -</u>	<u>\$ 1,000,000</u>

Note 9 - Temporarily Restricted Net Assets

At June 30, temporarily restricted net assets are available for the following:

	<u>2016</u>	<u>2015</u>
Capital Campaign - Construction	\$ 1,283,991	\$ 6,274,394
Navigators	1,056,570	1,837,945
Employment Services	162,512	225,270
House of Tiny Treasures	110,780	44,240
Furniture Vouchers/Moving Assistance	28,360	38,657
Housing Plus Services	15,973	28,110
Stabilization	-	20,037
Volunteer Projects	<u>5,000</u>	<u>8,786</u>
Total temporarily restricted net assets	<u>\$ 2,663,186</u>	<u>\$ 8,477,439</u>

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Note 10 - Net Assets Released From Restrictions

Net assets were released from restrictions during 2016 and 2015 by incurring expenses satisfying the restricted purposes specified by the donor as follows:

	<u>2016</u>	<u>2015</u>
Capital Campaign - Construction	\$ 6,926,010	\$ 278,169
Navigators	869,370	463,723
Employment Services	290,529	364,625
House of Tiny Treasures	52,560	23,260
Furniture Vouchers/Moving Assistance	20,297	26,035
Housing Plus Services	12,137	44,912
Stabilization	20,037	108,196
Volunteer Projects	8,786	1,214
Engagement Services	<u>-</u>	<u>43,852</u>
Total net assets released from restrictions	<u>\$ 8,199,726</u>	<u>\$ 1,353,986</u>

Note 11 - Endowment Funds

In March 2006, the Swalm Foundation established a \$1 million endowment fund (the Swalm Endowment Fund) to provide continuing support for SEARCH. 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets until those amounts are appropriated for expenditure by SEARCH in a manner consistent with the standard of prudence prescribed by TUPMIFA.

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 HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Note 11 - Endowment Funds (Continued)

SEARCH has adopted a policy whereby endowed amounts greater than the original corpus may distributed upon Board of Directors' approval. In establishing this policy, SEARCH considered the long-term expected return on its endowment. Appropriations in the amount of \$61,794 were made in 2016 and \$60,967 appropriations were made in 2015.

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. Actual returns in any given year may vary from this amount.

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.

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, 2016 or 2015.

Endowment funds by net asset classification are as follows:

	<u>2016</u>	<u>2015</u>
Permanently restricted net assets	\$ 1,000,000	\$ 1,000,000
Unrestricted net assets	<u>141,126</u>	<u>219,389</u>
Total endowment net assets	<u>\$ 1,141,126</u>	<u>\$ 1,219,389</u>

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Note 11 - Endowment Funds (Continued)

Changes in endowment funds for the years ended June 30, 2016 and 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2014	\$ 258,061	\$ -	\$ 1,000,000	\$ 1,258,061
Investment return:				
Investment income	26,923	-	-	26,923
Net appreciation of investments	2,055	-	-	2,055
Appropriations	(60,967)	-	-	(60,967)
Investment management fees	(6,683)	-	-	(6,683)
Endowment net assets, June 30, 2015	219,389	-	1,000,000	1,219,389
Investment return:				
Investment income	27,552	-	-	27,552
Net depreciation of investments	(37,858)	-	-	(37,858)
Appropriations	(61,794)	-	-	(61,794)
Investment management fees	(6,163)	-	-	(6,163)
Endowment net assets, June 30, 2016	\$ 141,126	\$ -	\$ 1,000,000	\$ 1,141,126

Note 12 - Leases

SEARCH conducts its operations utilizing office equipment and one building that are under non-cancelable operating lease agreements. Lease expense for the years ended June 30, 2016 and 2015 was \$78,681 and \$52,017, respectively. Minimum future lease commitments under operating leases are as follows:

Years Ending June 30,	Amount
2017	\$ 134,362
2018	90,209
2019	90,209
2020	20,520
2021	21,570
Thereafter	592,855
Total	\$ 949,725

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Note 13 - Commitments

SEARCH signed a two year master lease agreement with the management company of an apartment complex as part of a grant obtained from the U.S. Department of Housing and Urban Development. SEARCH has future minimum lease commitments through June 30, 2017 that amount to \$696,579 which are fully reimbursable by the grant agreement.

Note 14 - Retirement Plan

SEARCH established a defined-contribution benefit plan in January 2000 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 \$129,193 and \$95,872 by SEARCH were charged to expense during the years ended June 30, 2016 and 2015, respectively.

Note 15 - Contingencies

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.

Note 16 - Credit Risk

Certain financial instruments potentially subject SEARCH to concentrations of credit risk. Investment securities consist primarily of mutual funds and exchange traded funds which could subject SEARCH to losses in the event of a general downturn in the public market. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in net values of investment securities will occur in the near term and that such change could materially affect the amounts recorded in the statement of financial position.

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, 2016 and 2015 totaled \$3,079,830 and \$6,340,734, 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, 2016 and 2015 in the amount of \$6,243,086 and \$3,897,693, respectively.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

Note 17 - Subsequent Events

On July 29, 2016, SEARCH sold one of its facilities. SEARCH received cash of \$1,736,040 and it offset its current note payable and accrued interest that totaled \$1,112,123. The transaction resulted in a gain of \$842,158, which was included in operations during the first quarter of 2017.

Management has evaluated subsequent events through December 22, 2016, the date which the financial statements were available to be issued. Management has determined that all significant subsequent events have been recognized or disclosed in these financial statements.

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