

SEARCH HOMELESS SERVICES

FINANCIAL STATEMENTS

JUNE 30, 2019

(With Summarized Comparative Information for 2018)

(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, 2019, 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, 2019 and 2018 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.

Report on Summarized Comparative Information

We have previously audited SEARCH Homeless Services' 2018 financial statements, and our report dated November 16, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended **June 30, 2018**, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Effect of Adopting New Accounting Standard

As discussed in Note 2, the Foundation adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019, 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
November 26, 2019

SEARCH HOMELESS SERVICES

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019

(with comparative financial information for 2018)

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 755,791	\$ 811,830
Government grants receivable	820,469	1,030,344
Contributions receivable, net (Note 3)	766,786	673,278
Prepaid expenses	110,580	107,427
Operating investments (Note 4)	2,230,718	2,041,851
Cash and cash equivalents restricted to special projects (Note 2)	5,125,267	-
Cash and cash equivalents restricted to capital projects	58,038	89,288
Contributions receivable restricted to capital projects, net (Note 3)	260,701	415,885
Endowed investments (Note 4 and 10)	1,000,000	1,000,000
Property and equipment, net (Note 6)	11,838,581	12,196,117
 Total assets	 <u>\$ 22,966,931</u>	 <u>\$ 18,366,020</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 95,103	\$ 100,226
Accrued expenses	726,868	721,445
Demand note payable (Note 7)	-	100,000
 Total liabilities	 <u>821,971</u>	 <u>921,671</u>
Net assets:		
Without donor restrictions	15,208,809	15,202,461
With donor restrictions:		
Purpose/time (Note 8)	5,936,151	1,241,888
Perpetual (Note 10)	1,000,000	1,000,000
 Total net assets	 <u>22,144,960</u>	 <u>17,444,349</u>
 Total liabilities and net assets	 <u>\$ 22,966,931</u>	 <u>\$ 18,366,020</u>

See accompanying notes to financial statements.

SEARCH HOMELESS SERVICES

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2019 (with summarized financial information for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Contributions, revenue, and other support:				
Contributions	\$ 1,680,783	\$ 5,835,331	\$ 7,516,114	\$ 2,505,008
Federal grants and contracts	3,950,343	-	3,950,343	3,089,705
State grants and contracts	302,627	-	302,627	686,274
Other government grants and contracts	900,493	-	900,493	1,119,970
Private grants and contracts	751,065	-	751,065	922,534
Contributed services and merchandise	120,241	-	120,241	126,802
Special events (2019 net of direct expenses of \$105,042; 2018 net of direct expenses of \$120,398)	1,362,112	-	1,362,112	1,072,791
Net investment income (Note 5)	202,662	-	202,662	177,989
Other income	138,099	-	138,099	275,791
Net assets released from restrictions (Note 9)	1,141,068	(1,141,068)	-	-
Total contributions, revenue, and other support	10,549,493	4,694,263	15,243,756	9,976,864
Expenses:				
Program services:				
Engagement	1,911,842	-	1,911,842	2,072,732
Education Child	1,428,247	-	1,428,247	1,511,667
Housing Plus	5,528,403	-	5,528,403	5,489,278
Total program services	8,868,492	-	8,868,492	9,073,677
Supporting services:				
Management and general	1,030,153	-	1,030,153	1,098,382
Fundraising	277,470	-	277,470	233,184
Facilities	367,030	-	367,030	380,271
Total supporting services	1,674,653	-	1,674,653	1,711,837
Total expenses	10,543,145	-	10,543,145	10,785,514
Change in net assets	6,348	4,694,263	4,700,611	(808,650)
Net assets at beginning of year	15,202,461	2,241,888	17,444,349	18,252,999
Net assets at end of year	<u>\$ 15,208,809</u>	<u>\$ 6,936,151</u>	<u>\$ 22,144,960</u>	<u>\$ 17,444,349</u>

See accompanying notes to financial statements.

SEARCH HOMELESS SERVICES

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2019 (with summarized financial information for 2018)

	Program Services				Supporting Services						
	Engagement	Education Child	Housing Plus	Total	Management and		Fundraising	Facilities	Total	Total	2018
					General	-					
Salaries	\$ 1,222,213	\$ 803,035	\$ 3,125,075	\$ 5,150,323	\$ 552,068	\$ -	\$ 122,439	\$ 31,846	\$ 706,353	\$ 5,856,676	\$ 5,910,716
Employee benefits	307,267	153,755	764,064	1,225,086	92,729	-	26,981	4,929	124,639	1,349,725	1,417,971
Payroll taxes	91,545	63,633	239,967	395,145	41,237	-	9,532	2,795	53,564	448,709	455,031
Total salaries and related expenses	1,621,025	1,020,423	4,129,106	6,770,554	686,034	-	158,952	39,570	884,556	7,655,110	7,783,718
Direct assistance to individuals:											
Housing	3,008	-	706,058	709,066	337	-	-	-	337	709,403	770,135
Food	4,295	48,300	14,677	67,272	4,050	1,488	-	-	5,538	72,810	79,682
Transportation	23,760	-	61,920	85,680	60	-	-	-	60	85,740	64,945
Training	-	-	-	-	2,500	-	-	-	2,500	2,500	750
Supplies	8,487	1,390	1,795	11,672	370	-	-	-	370	12,042	30,105
Other	43	2,887	16,354	19,284	455	-	-	-	455	19,739	11,445
Donated direct assistance	86,147	34,093	-	120,240	-	-	-	-	-	120,240	126,802
Medical assistance	-	33,537	24	33,561	1,305	-	-	-	1,305	34,866	29,240
Professional fees and contract services	23,582	9,863	406,663	440,108	95,765	26,585	6,166	-	128,516	568,624	468,919
Utilities and maintenance	29,757	86,901	38,676	155,334	25,380	3,051	82,370	-	110,801	266,135	302,523
Interest expense	-	-	-	-	1,454	-	-	-	1,454	1,454	4,478
Lease expense	22,711	18,264	40,802	81,777	61,423	13,189	16,743	-	91,355	173,132	208,694
Training and conferences	9,361	6,357	9,516	25,234	27,151	1,486	657	-	29,294	54,528	108,104
Travel and vehicle expense	4,884	10,495	17,912	33,291	1,523	492	19,967	-	21,982	55,273	62,981
Insurance and taxes	11,542	6,487	15,042	33,071	13,025	2,169	22,593	-	37,787	70,858	73,914
Supplies	5,452	28,781	8,036	42,269	10,649	561	1,731	-	12,941	55,210	52,931
Telephone and other communications	4,352	6,960	17,429	28,741	3,697	703	9,713	-	14,113	42,854	47,837
Printing and publications	316	87	794	1,197	1,708	831	-	-	2,539	3,736	1,540
Postage	111	1	68	180	776	3,824	-	-	4,600	4,780	4,468
Parking fees	-	18,001	-	18,001	-	-	17,552	-	17,552	35,553	32,251
Closing costs	-	-	-	-	-	-	-	-	-	-	17,704
Miscellaneous	847	3,274	3,533	7,654	36,962	57,172	6,409	-	100,543	108,197	107,996
	1,859,680	1,336,101	5,488,405	8,684,186	974,624	270,503	223,471	-	1,468,598	10,152,784	10,391,162
Depreciation of property and equipment	52,162	92,146	39,998	184,306	55,529	6,967	143,559	-	206,055	390,361	394,352
Total expenses	<u>\$ 1,911,842</u>	<u>\$ 1,428,247</u>	<u>\$ 5,528,403</u>	<u>\$ 8,868,492</u>	<u>\$ 1,030,153</u>	<u>\$ 277,470</u>	<u>\$ 367,030</u>	<u>\$ -</u>	<u>\$ 1,674,653</u>	<u>\$ 10,543,145</u>	<u>\$ 10,785,514</u>

See accompanying notes to financial statements.

SEARCH HOMELESS SERVICES

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 4,700,611	\$ (808,650)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	390,361	394,352
Gain on sale of building	-	(211,603)
Net change in present value adjustment on contributions receivable	(93)	4,078
Net unrealized and realized gains on investments	(92,905)	(101,646)
Contributions restricted to special programs	(5,125,267)	
Changes in operating assets and liabilities:		
Contributions and grants receivable	116,460	182,919
Prepaid expenses	(3,153)	(60,170)
Accounts payable and accrued expenses	300	143,361
Net cash provide by (used in) operating activities	(13,686)	(457,359)
Cash flows from investing activities:		
Purchases of equipment	(32,825)	(12,435)
Proceeds from sale of property and equipment	-	320,000
Net change in cash and cash equivalents restricted to capital projects	31,250	311,282
Purchases of investments	(1,593,207)	(2,197,168)
Proceeds from sale of investments	1,497,245	2,181,425
Net cash (used in) provided by investing activities	(97,537)	603,104
Cash flows from financing activities:		
Payments on notes payable	(100,000)	-
Proceeds from contributions restricted to capital projects	155,184	260,999
Net cash provided by financing activities	55,184	260,999
Net increase in cash and cash equivalents	(56,039)	406,744
Cash and cash equivalents - beginning of year	811,830	405,086
Cash and cash equivalents - end of year	\$ 755,791	\$ 811,830
Supplemental disclosure of cash flow information -		
Cash paid for interest	\$ 1,454	\$ 4,478
Supplemental disclosure of non-cash operating activities -		
Contributed services and merchandise	\$ 120,240	\$ 126,802

See accompanying notes to financial statements.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1 - Description of Organization

SEARCH Homeless Services was chartered in 1989 as a Texas not-for-profit corporation by a group of concerned citizens and volunteers in response to the growing number of men, women and children living on the streets of Houston. SEARCH serves individuals and families who are or have been homeless from throughout Houston and Harris County as we pursue a mission of providing hope, creating opportunity, and transforming lives.

Since its start, SEARCH has developed case management expertise working with the most challenged and challenging citizens of our community. The combination of our experience with this target population and skillful implementation of evidence-based practices has enabled SEARCH to become the region's leading case management agency helping men, women, and children successfully move from the streets into safe, stable housing, and on toward greater health and self-sufficiency.

Over the past seven years, Houston area homeless service providers, government agencies, and philanthropic leaders have been collaborating in unprecedented ways to go beyond managing homelessness and its crises to truly ending homelessness. More than 70 agencies and public and private funders have developed a systems approach (called The Way Home) rather than individual agency, and consequently, inefficient and less effective approaches. Due to our depth of experience serving this vulnerable population, SEARCH fills multiple critical roles in The Way Home's system. SEARCH advises and plans with key leaders and partners and carries out the front-line work of effectively engaging individuals to seek, make, and sustain meaningful change in their lives.

Skillful case management makes up the foundation of SEARCH's range of services that Engage & Stabilize, House, Employ, and Educate individuals and families who've been homeless:

- I. Engage & Stabilize: This front-line team finds people living on the streets and in shelters and facilitates their effective transition to permanent housing or other appropriate alternatives. This team provides (1) Mobile Outreach and Coordinated Assessment, (2) Welcome Center central hub connections to critical immediate and long-term services, (3) Housing Navigation, and (4) Social Security Disability Income attainment. Each year, SEARCH's Engagement & Stabilization Team serves over 2100 individuals.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1 - Description of Organization (Continued)

II. Housing Plus: Supporting The Way Home and its implementation of the nationally recognized Housing First model, SEARCH delivers a full range of peer to clinical case management supports for residents of permanent housing to improve their mental, physical, and financial health as they transition toward greater self-sufficiency. Once in a safe place to call home and no longer focused on meeting daily basic needs, individuals and families are better able to improve their health and ability to thrive. SEARCH Housing case managers help clients increase their income, more sustainably address their behavioral and physical health needs, and learn to manage their lives with new life skills and understanding of available community resources. SEARCH has grown in our capacity over the past few years and are able to serve 800 individuals in permanent supportive housing and over 100 households and families in Rapid-Rehousing. Because of the Housing First practice that ensures Houston's most vulnerable citizens who are homeless are prioritized to obtain permanent housing before other service supports, most clients who enter housing do not have income. Their debilitating health conditions and often life-long challenges have not facilitated their income-earning capabilities. Therefore, SEARCH integrates employment and income support services into our housing programs, like the integration of primary and behavioral health services. SEARCH case managers help clients increase their income through non-cash benefits and obtaining social security income. Furthermore, SEARCH integrated our employment services into our permanent supportive housing to complement The Way Home's Income Now initiative. The Income Now initiative maximizes clients' use of mainstream employment services provided through Work Force Solutions (WFS). SEARCH continues to build skill in all our case managers related to behavior change as it relates to income.

III. Educate: Started in 1992, SEARCH's House of Tiny Treasures (HTT), a nationally accredited early childhood development center, provides developmentally appropriate early childhood education coupled with a range of therapeutic care to children of families who've been homeless. By providing full day, full year care, SEARCH enables parents to be successful in their income and education pursuits that will stabilize their families. With this stronger foundation, the second generation has a greater chance to catch up to other, more advantaged children and to perform well in school and later in life. Breaking the cycle of homelessness and poverty begins with the children, which makes this investment in their housing stability and family's ability to thrive with appropriate case management and educational supports significant. The House of Tiny Treasures can serve up to 72 children at any given time.

Management and General - services include administration, finance, operations, IT and program 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 and leases not allocated to specific programs.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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:

- Net assets without donor restrictions - Net assets that are not subject to donor-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-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. This classification includes contributions, underwriting, and unconditional promises to give.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, SEARCH considers all highly liquid investments without donor restrictions with an initial maturity of three months or less to be cash equivalents. SEARCH held no cash equivalents as of June 30, 2019 and 2018.

Cash and Cash Equivalents Restricted for Grant Projects

For the purposes of the statement of cash flows, SEARCH considers all highly liquid investments with donor restrictions with an initial maturity of three months or less to be cash equivalents. SEARCH held a money market account with a balance of \$5,125,267 at June 30, 2019 from one donor restricted for family homelessness projects.

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, 2019

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. 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.

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.

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.

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.

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.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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 2019 or 2018.

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, 2019, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2016 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.

Reclassification

Certain amounts in the 2018 financial statements have been reclassified to conform to the current year presentation. There is no impact to changes in net assets.

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 accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with SEARCH's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Note 2 - Summary of Significant Accounting Policies (Continued)

Change in Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board issued *Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. This ASU amended the reporting model for nonprofit organizations and enhanced required disclosures. SEARCH adopted ASU 2016-14 during fiscal year 2019, with retrospective application to fiscal year 2017. The major changes to DePelchin's consolidated financial statements as a result of adopting ASU 2016-14 include (a) the presentation of two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) disclosure of quantitative and qualitative information regarding liquidity and availability of resources, and (c) modifying other disclosures intended to increase the usefulness of the financial statements.

Note 3 - Contributions Receivable

Unconditional promises to give, net of the discount to present value (at a rate of 5%), at June 30 are due to be collected as follows:

	<u>2019</u>	<u>2018</u>
Gross amounts due in:		
One year	\$ 946,918	\$ 998,686
Two to five years	<u>85,000</u>	<u>95,000</u>
Total contributions receivable	1,031,918	1,093,686
Less: discounts to net realizable value	<u>(4,431)</u>	<u>(4,523)</u>
Contributions receivable, net of present value adjustment	<u>\$ 1,027,487</u>	<u>\$ 1,089,163</u>
Contribution receivable, net	\$ 766,786	\$ 673,278
Contribution receivable restricted to capital projects, net	<u>260,701</u>	<u>415,885</u>
Contributions receivable, net	<u>\$ 1,027,487</u>	<u>\$ 1,089,163</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, 2019 or 2018.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019 and 2018. There have been no changes in methodologies used at June 30, 2019 from June 30, 2018.

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, 2019 and 2018.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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>2019</u>	<u>2018</u>
Exchange traded funds:		
Domestic equity	\$ 943,086	\$ 684,456
Foreign equity	337,147	248,282
Fixed income	<u>206,554</u>	<u>363,005</u>
Total exchange traded funds	<u>1,486,787</u>	<u>1,295,743</u>
Mutual funds:		
Fixed income	554,061	584,898
Domestic equity	79,564	798,669
Foreign equity	796,606	230,135
Multi-strategy	<u>198,809</u>	<u>86,296</u>
Total mutual funds	<u>1,629,040</u>	<u>1,699,998</u>
Money market funds	<u>114,891</u>	<u>46,110</u>
Total assets at fair value	<u>\$ 3,230,718</u>	<u>\$ 3,041,851</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>2019</u>	<u>2018</u>
Interest and dividends	\$ 126,543	\$ 69,423
Net unrealized (loss) gain	118,082	(238,655)
Net realized gain	(25,177)	340,301
Advisory fees	<u>(16,786)</u>	<u>6,920</u>
Total investment return, net	<u>\$ 202,662</u>	<u>\$ 177,989</u>

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 6 - Property and Equipment,

Property and equipment consist of the following at June 30:

	2019	2018
Land	\$ 2,751,288	\$ 2,751,288
Building	7,196,717	7,196,717
Child care facility	2,366,523	2,366,523
Equipment and furniture	630,189	630,189
Computer software	18,411	18,411
Vehicles	381,901	349,075
Total at cost	13,345,029	13,312,203
Less: accumulated depreciation	(1,506,448)	(1,116,086)
Total property and equipment, net	\$ 11,838,581	\$ 12,196,117

Depreciation expense for the years ended June 30, 2019 and 2018 was \$390,361 and \$394,352, respectively.

Note 7 - Demand Note Payable

SEARCH has a demand note payable with a bank with interest rate at prime that is secured by a \$1,000,000 deposit account in the operating investment account. The demand note has a maximum borrowing base of \$1,000,000. The outstanding balance was \$- and \$100,000 for the years ended June 30, 2019 and 2018, respectively.

Note 8 - Net Assets with Donor Restrictions: Purpose/Time

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

	2019	2018
Homeless Families	\$ 5,040,720	\$ -
Navigators	280,133	496,447
Engagement	242,771	181,743
Capital Campaign - Other	176,754	176,754
Housing Plus Services	55,507	16,976
House of Tiny Treasures	51,895	35,036
Capital Campaign – Construction	50,530	50,530
Volunteer Projects	18,220	13,879
Information Technology Projects	13,121	55,152
Client Pet Expenses	5,000	-
Snacks for HTT	1,500	-
Employment Services	-	214,376
Hurricane Harvey Relief	-	995
Total net assets with donor restrictions: purpose/time	\$ 5,936,151	\$ 1,241,888

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 9 - Net Assets Released From Restrictions

Net assets were released from restrictions during 2019 and 2018 by incurring expenses satisfying the restricted purposes specified by the donor as follows:

	<u>2019</u>	<u>2018</u>
Employment Services	\$ 418,033	\$ 195,779
Engagement Services	283,171	81,514
Navigators	216,314	455,625
House of Tiny Treasures	65,621	83,221
Homeless Families	64,330	-
Information Technology Projects	42,031	21,674
Housing Plus Services	34,914	100,260
Volunteer Projects	15,659	18,643
Hurricane Harvey Relief	995	74,189
Capital Campaign - Construction	<u>-</u>	<u>9,709</u>
Total net assets released from restrictions	<u>\$ 1,141,068</u>	<u>\$ 1,040,614</u>

Note 10 - 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 net assets with donor restrictions: perpetual (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 net assets with donor restrictions: perpetual 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.

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, 2019

Note 10 - Endowment Funds (Continued)

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 2019 and appropriations of \$61,218 were made in 2018.

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, 2019 or 2018.

Endowment funds by net asset classification are as follows:

	<u>2019</u>	<u>2018</u>
Net assets with donor restrictions: perpetual	\$ 1,000,000	\$ 1,000,000
Net assets without donor restrictions	<u>319,349</u>	<u>241,978</u>
Total endowment net assets	<u>\$ 1,319,349</u>	<u>\$ 1,241,978</u>

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Note 10 - Endowment Funds (Continued)

Changes in endowment funds for the years ended June 30, 2019 and 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Perpetual</u>	<u>Total</u>
Endowment net assets, June 30, 2018	\$ 221,536	\$ -	\$ 1,000,000	\$ 1,221,536
Investment return:				
Investment income	27,753	-	-	27,753
Net appreciation of investments	60,666	-	-	60,666
Appropriations	(61,218)	-	-	(61,218)
Investment management fees	<u>(6,759)</u>	<u>-</u>	<u>-</u>	<u>(6,759)</u>
Endowment net assets, June 30, 2018	241,978	-	1,000,000	1,241,978
Investment return:				
Investment income	46,124	-	-	46,124
Net appreciation of investments	38,102	-	-	38,102
Appropriations	-	-	-	-
Investment management fees	<u>(6,855)</u>	<u>-</u>	<u>-</u>	<u>(6,855)</u>
Endowment net assets, June 30, 2019	<u>\$ 319,349</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 1,319,349</u>

Note 11 - Leases

SEARCH conducts its operations utilizing office equipment under non-cancelable operating lease agreements. Lease expense for the years ended June 30, 2019 and 2018 was \$150,902 and \$147,627, respectively. Minimum future lease commitments under operating leases are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2020	\$ 104,158
2021	51,871
2022	24,954
2023	19,800
2024	19,800
Thereafter	<u>533,478</u>
Total	<u>\$ 754,061</u>

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 12 - 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 \$168,247 and \$160,826 by SEARCH were charged to expense during the years ended June 30, 2019 and 2018, respectively.

Note 13 - 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 14 - 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, 2019 and 2018 totaled \$619,801 and \$721,225, 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, 2019 and 2018 in the amount of \$5,356,232 and \$1,756,518, respectively.

SEARCH HOMELESS SERVICES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 15 - Liquidity and Availability of Resources

The following represents financial assets available to meet cash needs for general expenditures within one year as of June 30, 2019:

Cash and cash equivalents	\$ 755,791
Government grants receivable	820,469
Contributions receivable	946,918
Investments	<u>3,230,718</u>
Total financial assets	<u>5,753,896</u>
Less:	
Receivables due in period beyond one year	(80,568)
Endowment investments (restricted in perpetuity)	<u>(1,000,000)</u>
Total financial assets available within one year	<u>\$ 4,673,328</u>

As part of our liquidity management, SEARCH has a committed demand note in the amount of \$1 million, which it could draw upon in the event of an unanticipated liquidity need. Additionally, SEARCH has access to operating cash from an endowment and money market account whereby amounts greater than the original corpora may be distributed annually in accordance with investment policy. The allowable endowment and money market appropriations as of June 30, 2019 was \$160,305. None was taken in fiscal year 2019.

Note 16 - Subsequent Events

Management has evaluated subsequent events through November 26, 2019, 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 *****