

**SEARCH HOMELESS SERVICES**

**FINANCIAL STATEMENTS**

**JUNE 30, 2020**

*(With Summarized Comparative Information for 2019)*

*(With Independent Auditor's Report Thereon)*

**Insight. Oversight. Foresight.<sup>SM</sup>**

 **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 statement of financial position as of June 30, 2020, and the related statement 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.

### **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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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, 2020 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.

**Report on Summarized Comparative Information**

We have previously audited SEARCH Homeless Services' 2019 financial statements, and our report dated November 29, 2019, 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, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2020, 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 5, 2020

# SEARCH HOMELESS SERVICES

## STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

(with comparative financial information for 2019)

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,058,382	\$ 755,791
Government grants receivable	895,029	820,469
Contributions receivable, net (Note 3)	637,832	766,786
Prepaid expenses	95,366	110,580
Operating investments (Note 4)	2,190,661	2,230,718
Cash and cash equivalents restricted to special projects (Note 2)	5,149,355	5,125,267
Cash and cash equivalents restricted to capital projects (Note 2)	-	58,038
Contributions receivable restricted to capital projects, net (Note 3)	69,685	260,701
Endowed investments (Note 4 and 10)	1,000,000	1,000,000
Property and equipment, net (Note 6)	11,511,480	11,838,581
 Total assets	 <u>\$ 23,607,790</u>	 <u>\$ 22,966,931</u>
 <b><u>Liabilities and Net Assets</u></b>		
Liabilities:		
Accounts payable	\$ 194,707	\$ 95,103
Accrued expenses	995,566	726,868
Note payable (Note 7)	1,355,000	-
 Total liabilities	 <u>2,545,273</u>	 <u>821,971</u>
Net assets:		
Without donor restrictions	14,386,770	15,208,809
With donor restrictions:		
Purpose/time (Note 8)	5,675,747	5,936,151
Perpetual (Note 10)	1,000,000	1,000,000
 Total net assets	 <u>21,062,517</u>	 <u>22,144,960</u>
 Total liabilities and net assets	 <u>\$ 23,607,790</u>	 <u>\$ 22,966,931</u>

See accompanying notes to financial statements.

# SEARCH HOMELESS SERVICES

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2020 (with summarized financial information for 2019)

	2020		2019	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Contributions, revenue, and other support:				
Contributions	\$ 2,032,423	\$ 751,159	\$ 2,783,582	\$ 7,516,114
Federal grants and contracts	4,468,472	-	4,468,472	3,950,343
State grants and contracts	503,157	-	503,157	302,627
Other government grants and contracts	488,609	-	488,609	900,493
Private grants and contracts	704,662	-	704,662	751,065
Contributed merchandise	107,538	-	107,538	120,241
Special events (2020 net of direct expenses of \$51,955; 2019 net of direct expenses of \$105,042)	1,118,287	-	1,118,287	1,362,112
Net investment income (Note 5)	160,596	-	160,596	202,662
Other income	99,134	-	99,134	138,099
Net assets released from restrictions (Note 9)	1,011,563	(1,011,563)	-	-
<b>Total contributions, revenue, and other support</b>	<b>10,694,441</b>	<b>(260,404)</b>	<b>10,434,037</b>	<b>15,243,756</b>
Expenses:				
Program services:				
Engagement	1,763,583	-	1,763,583	1,911,842
Education Child	1,767,124	-	1,767,124	1,428,247
Housing Plus	6,338,664	-	6,338,664	5,528,403
<b>Total program services</b>	<b>9,869,371</b>	<b>-</b>	<b>9,869,371</b>	<b>8,868,492</b>
Supporting services:				
Management and general	1,024,849	-	1,024,849	1,030,153
Fundraising	261,336	-	261,336	277,470
Facilities	360,924	-	360,924	367,030
<b>Total supporting services</b>	<b>1,647,109</b>	<b>-</b>	<b>1,647,109</b>	<b>1,674,653</b>
<b>Total expenses</b>	<b>11,516,480</b>	<b>-</b>	<b>11,516,480</b>	<b>10,543,145</b>
Change in net assets	(822,039)	(260,404)	(1,082,443)	4,700,611
Net assets at beginning of year	15,208,809	6,936,151	22,144,960	17,444,349
Net assets at end of year	<u>\$ 14,386,770</u>	<u>\$ 6,675,747</u>	<u>\$ 21,062,517</u>	<u>\$ 22,144,960</u>

See accompanying notes to financial statements.

## SEARCH HOMELESS SERVICES

### STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

(with summarized financial information for 2019)

	Program Services				Supporting Services				Total	2019
	Engagement	Education Child	Housing Plus	Program Services Total	Management and General	Fundraising	Facilities	Supporting Services Total		
Salaries	\$ 1,125,026	\$ 1,070,202	\$ 3,190,383	\$ 5,385,611	\$ 517,244	\$ 130,589	\$ 71,372	\$ 719,205	\$ 6,104,816	\$ 5,856,676
Employee benefits	259,066	244,653	754,060	1,257,779	105,542	21,400	19,315	146,257	1,404,036	1,349,725
Payroll taxes	86,001	84,184	242,120	412,305	37,669	9,922	5,369	52,960	465,265	448,709
<b>Total salaries and related expenses</b>	<b>1,470,093</b>	<b>1,399,039</b>	<b>4,186,563</b>	<b>7,055,695</b>	<b>660,455</b>	<b>161,911</b>	<b>96,056</b>	<b>918,422</b>	<b>7,974,117</b>	<b>7,655,110</b>
Direct assistance to individuals:										
Housing	10,934	1,390	972,140	984,464	20,885	-	-	20,885	1,005,349	709,403
Food	3,906	32,347	8,264	44,517	7,224	-	-	7,224	51,741	72,810
Transportation	15,483	2,000	65,013	82,496	-	-	-	-	82,496	85,740
Training	-	-	-	-	-	-	-	-	-	2,500
Supplies	9,200	718	3,150	13,068	656	-	-	656	13,724	12,042
Other	1,370	18,872	11,896	32,138	60	-	-	60	32,198	19,739
Donated direct assistance	88,368	18,413	757	107,538	-	-	-	-	107,538	120,240
Medical assistance	1,785	5,415	-	7,200	-	-	-	-	7,200	34,866
Professional fees and contract services	24,905	9,786	763,616	798,307	95,837	34,826	4,308	134,971	933,278	568,624
Utilities and maintenance	23,776	80,919	30,635	135,330	19,856	3,031	82,009	104,896	240,226	266,135
Interest expense	-	-	-	-	621	-	4	625	625	1,454
Lease expense	-	18,001	-	18,001	-	-	16,588	16,588	34,589	173,132
Equipment and furniture	12,452	27,179	20,938	60,569	65,545	6,047	1,936	73,528	134,097	-
Training and conferences	12,101	2,943	983	16,027	26,924	6,338	316	33,578	49,605	54,528
Travel and vehicle expense	4,254	5,573	9,594	19,421	600	203	25,369	26,172	45,593	55,273
Insurance and taxes	12,822	11,439	17,304	41,565	11,403	2,283	17,030	30,716	72,281	70,858
Supplies	3,706	16,111	7,653	27,470	5,894	341	1,130	7,365	34,835	55,210
Telephone and other communications	14,585	14,859	44,214	73,658	24,804	3,765	5,909	34,478	108,136	42,854
Printing and publications	447	655	1,670	2,772	2,121	339	341	2,801	5,573	3,736
Postage	23	4	107	134	873	2,606	823	4,302	4,436	4,780
Parking fees	-	-	-	-	-	-	-	-	-	35,553
Closing costs	-	-	-	-	-	-	-	-	-	-
Miscellaneous	1,766	3,297	154,169	159,232	26,526	32,679	4,651	63,856	223,088	108,197
	1,711,976	1,668,960	6,298,666	9,679,602	970,284	254,369	256,470	1,481,123	11,160,725	10,152,784
Depreciation of property and equipment	51,607	98,164	39,998	189,769	54,565	6,967	104,454	165,986	355,755	390,361
<b>Total expenses</b>	<b>\$ 1,763,583</b>	<b>\$ 1,767,124</b>	<b>\$ 6,338,664</b>	<b>\$ 9,869,371</b>	<b>\$ 1,024,849</b>	<b>\$ 261,336</b>	<b>\$ 360,924</b>	<b>\$ 1,647,109</b>	<b>\$ 11,516,480</b>	<b>\$ 10,543,145</b>

See accompanying notes to financial statements.

# SEARCH HOMELESS SERVICES

## STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

(with comparative financial information for 2019)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (1,082,443)	\$ 4,700,611
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	355,755	390,361
Net change in present value adjustment on contributions receivable	(728)	(93)
Net unrealized and realized gains on investments	218	(92,905)
Changes in operating assets and liabilities:		
Contributions and grants receivable	54,394	116,460
Prepaid expenses	15,214	(3,153)
Accounts payable and accrued expenses	368,302	300
Net cash (used in) provided by operating activities	(289,288)	5,111,581
Cash flows from investing activities:		
Purchases of equipment	(28,654)	(32,825)
Purchases of investments	(792,322)	(1,593,207)
Proceeds from sale of investments	832,161	1,497,245
Net cash provided by (used in) investing activities	11,185	(128,787)
Cash flows from financing activities:		
Payments on notes payable	(75,000)	(100,000)
Proceeds from notes payable	75,000	-
Proceeds from payroll protection program	1,355,000	-
Proceeds from contributions restricted to capital projects	191,744	155,184
Net cash provided by financing activities	1,546,744	55,184
Net increase in cash and cash equivalents	1,268,641	5,037,978
Cash, cash equivalents and restricted cash, beginning of year	5,939,096	901,118
Cash, cash equivalents and restricted cash, end of year	\$ 7,207,737	\$ 5,939,096
Supplemental disclosure of cash flow information -		
Cash paid for interest	\$ 625	\$ 1,454
Supplemental disclosure of non-cash operating activities -		
Contributed services and merchandise	\$ 107,538	\$ 120,240
Schedule of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 2,058,382	\$ 755,791
Restricted cash:		
Restricted funds for special projects, held at the bank	5,149,355	5,125,267
Restricted funds for capital projects, held at the bank	-	58,038
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	\$ 7,207,737	\$ 5,939,096

See accompanying notes to financial statements.



# SEARCH HOMELESS SERVICES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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### 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, 2020 AND 2019

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### 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), now the Foshee Family House of Tiny Treasures (FFHTT) 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 Foshee Family 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, 2020 AND 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, Cash Equivalents, and Restricted Cash

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. Cash equivalents held for investment purposes in money market accounts are classified as investments in the statement of financial position and are excluded from cash equivalents for the purpose of cash flows. Amounts included in restricted cash represent funds or escrows with use restrictions from external parties.

The following is a reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position at June 30, 2020 and 2019 to the amount shown within the consolidated statement of cash flows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,058,382	\$ 755,791
Cash restricted for capital projects	-	58,038
Cash restricted for grant projects	<u>5,149,355</u>	<u>5,125,267</u>
Total cash, cash equivalents and restricted cash	<u>\$ 7,207,737</u>	<u>\$ 5,939,096</u>

#### 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, 2020 AND 2019

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### 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 \$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, 2020 and 2019, 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 and state 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 of \$3,750,277 that have not been recognized at June 30, 2020 because qualifying expenditures have not yet been incurred. No advance payments were received as of June 30, 2020 or 2019.

*Special events revenue* is recognized when the event is held.

*Contributed Merchandise* represents 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 HOMELESS SERVICES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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### 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. 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 2020 or 2019.

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, 2020, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2017 forward (with limited exceptions).

# SEARCH HOMELESS SERVICES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### 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.

#### 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, 2019, from which the summarized information was derived.

#### Changes in Accounting Principles

On July 1, 2019, SEARCH adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, and all related amendments (collectively, ASC 606) using the modified retrospective method. ASC 606 requires the recognition of revenue when promised goods or services are transferred to customers or clients in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The adoption of ASC 606 resulted in no significant changes to SEARCH's financial reporting. Accordingly, no adjustment to beginning net assets was necessary.

On July 1, 2019, SEARCH adopted ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* using the modified prospective method. This ASU improved the clarity on existing guidance for the determination of exchange transactions and distinguishing between conditional and unconditional contributions. The adoption of this ASU had no impact on SEARCH's financial statements.

During fiscal year 2020, SEARCH adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, and as such, has appropriately classified restricted cash as a cash and cash equivalent in the statement of cash flows. Reclassifications were made to the previously reported fiscal year 2019 cash flow amounts to conform with the current year presentation.

# SEARCH HOMELESS SERVICES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

### 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>2020</u>	<u>2019</u>
Gross amounts due in:		
One year	\$ 649,934	\$ 946,918
Two to five years	<u>59,000</u>	<u>85,000</u>
Total contributions receivable	708,934	1,031,918
Less: discounts to net realizable value	<u>(1,417)</u>	<u>(4,431)</u>
Contributions receivable, net of present value adjustment	<u>\$ 707,517</u>	<u>\$ 1,027,487</u>
Contribution receivable, net	\$ 637,832	\$ 766,786
Contribution receivable restricted to capital projects, net	<u>69,685</u>	<u>260,701</u>
Contributions receivable, net	<u>\$ 707,517</u>	<u>\$ 1,027,487</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, 2020 or 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).

# SEARCH HOMELESS SERVICES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

### Note 4 - Fair Value Measurements (Continued)

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, 2020 and 2019. There have been no changes in methodologies used at June 30, 2020 from June 30, 2019.

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, 2020 and 2019.

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

	<u>2020</u>	<u>2019</u>
Exchange traded funds:		
Domestic equity	\$ 976,268	\$ 943,086
Foreign equity	330,751	337,147
Fixed income	<u>194,928</u>	<u>206,554</u>
Total exchange traded funds	<u>1,501,947</u>	<u>1,486,787</u>
Mutual funds:		
Fixed income	566,227	554,061
Domestic equity	160,424	79,564
Foreign equity	717,494	796,606
Multi-strategy	<u>200,200</u>	<u>198,809</u>
Total mutual funds	<u>1,644,345</u>	<u>1,629,040</u>
Money market funds	<u>44,369</u>	<u>114,891</u>
Total assets at fair value	<u>\$ 3,190,661</u>	<u>\$ 3,230,718</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.



# SEARCH HOMELESS SERVICES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

### Note 5 - Investment Return

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

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 173,766	\$ 126,543
Net unrealized (loss) gain	(631)	118,082
Net realized gain (loss)	413	(25,177)
Advisory fees	<u>(12,952)</u>	<u>(16,786)</u>
Total investment return, net	<u>\$ 160,596</u>	<u>\$ 202,662</u>

### Note 6 - Property and Equipment,

Property and equipment consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
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	658,843	630,189
Computer software	18,411	18,411
Vehicles	<u>381,901</u>	<u>381,901</u>
Total at cost	13,373,683	13,345,029
Less: accumulated depreciation	<u>(1,862,203)</u>	<u>(1,506,448)</u>
Total property and equipment, net	<u>\$ 11,511,480</u>	<u>\$ 11,838,581</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$355,755 and \$390,361, respectively.

### Note 7 - Notes 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. There was no outstanding balance for the years ended June 30, 2020 and 2019.

On April 17, 2020, SEARCH obtained a \$1,355,000 Paycheck Protection Program Loan (PPP Loan) which was established under the CARES Act and is guaranteed by the U.S. Small Business Administration. The PPP Loan is due in seventeen equal principal payments beginning November 17, 2020, with final payment due April 17, 2022. The PPP Loan has a fixed interest rate of 1.00%, with accrued interest payable monthly beginning November 17, 2020. The PPP Loan may be forgiven, in whole or in part, if SEARCH complies with certain requirements of the CARES Act.

## SEARCH HOMELESS SERVICES

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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

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

	<b>2020</b>	<b>2019</b>
Homeless Families	\$ 4,802,375	\$ 5,040,720
Engagement	294,793	242,771
Capital Campaign - Other	176,754	176,754
Timing Restrictions	150,000	-
COVID Relief	93,542	-
Capital Campaign – Construction	50,530	50,530
Navigators	30,132	280,133
Furniture Fund	26,561	-
House of Tiny Treasures	19,527	51,895
Volunteer Projects	13,000	18,220
Housing Plus Services	7,308	55,507
Clients Assistance	5,590	-
Client Pet Expenses	4,903	5,000
Snack for HTT	732	1,500
Information Technology Projects	-	13,121
Total net assets with donor restrictions: purpose/time	\$ 5,675,747	\$ 5,936,151

**Note 9 - Net Assets Released From Restrictions**

Net assets were released from restrictions during 2020 and 2019 by incurring expenses satisfying the restricted purposes specified by the donor as follows:

	<b>2020</b>	<b>2019</b>
Engagement Services	\$ 312,867	\$ 283,171
Navigators	250,000	216,314
Homeless Families	238,345	64,330
Housing Plus Services	78,198	34,914
House of Tiny Treasures	76,868	65,621
Furniture Fund	20,910	-
Volunteer Projects	18,220	15,659
Information Technology Projects	13,121	42,031
COVID Relief	1,458	-
Snacks for HTT	769	-
Clients Assistance	710	-
Client Pet Expenses	97	-
Employment Services	-	418,033
Hurricane Harvey	-	995
Total net assets released from restrictions	\$ 1,011,563	\$ 1,141,068

# SEARCH HOMELESS SERVICES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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### 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 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. Appropriations in the amount of \$1,500 were made in 2020 and none in 2019.

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.

# SEARCH HOMELESS SERVICES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

### Note 10 - Endowment Funds (Continued)

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, 2020 or 2019.

Endowment funds by net asset classification are as follows:

	<b>2020</b>	<b>2019</b>
Net assets with donor restrictions: perpetual	\$ 1,000,000	\$ 1,000,000
Net assets without donor restrictions	359,524	319,349
Total endowment net assets	\$ 1,359,524	\$ 1,319,349

Changes in endowment funds for the years ended June 30, 2020 and 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions Purpose/Time	Perpetual	Total
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
Investment management fees	(6,855)	-	-	(6,855)
Endowment net assets, June 30, 2019	319,349	-	1,000,000	1,319,349
Investment return:				
Investment income	40,769	-	-	40,769
Net appreciation of investments	8,098	-	-	8,098
Appropriations	(1,500)	-	-	1,500
Investment management fees	(7,192)	-	-	(7,192)
Endowment net assets, June 30, 2020	\$ 359,524	\$ -	\$ 1,000,000	\$ 1,359,524

# SEARCH HOMELESS SERVICES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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### Note 11 - Leases

SEARCH conducts its operations utilizing office equipment under non-cancelable operating lease agreements. Lease expense for the years ended June 30, 2020 and 2019 was \$932,581 and \$150,902, respectively. Minimum future lease commitments under operating leases are as follows:

Years Ending <u>June 30,</u>	<u>Amount</u>
2021	\$ 714,271
2022	80,154
2023	19,801
2024	19,801
2025	19,801
Thereafter	<u>513,675</u>
Total	<u>\$ 1,367,503</u>

### 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 \$165,036 and \$168,247 by SEARCH were charged to expense during the years ended June 30, 2020 and 2019, 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 HOMELESS SERVICES

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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### Note 14 - Credit Risk (Continued)

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, 2020 and 2019 totaled \$1,843,225 and \$619,801, 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, 2020 and 2019 in the amount of \$4,587,494 and \$5,356,232, respectively.

### 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, 2020:

Cash and cash equivalents	\$ 2,058,382
Government grants receivable	895,029
Contributions receivable	649,934
Investments	<u>3,190,661</u>
Total financial assets	<u>6,794,006</u>
Less:	
Receivables due in period beyond one year	(57,583)
Endowment investments (restricted in perpetuity)	<u>(1,000,000)</u>
Total financial assets available within one year	<u>\$ 5,736,423</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 account whereby amounts greater than the original corpus may be distributed annually in accordance with investment policy. The allowable endowment appropriations as of June 30, 2020 was \$65,465. Only \$1,500 was taken in fiscal year 2020.

### Note 16 - Risks and Uncertainties

Global efforts to contain the spread of COVID-19, often referred to as the Coronavirus, have significantly impacted many organizations and the economy. While the situation is evolving rapidly, and the full impact is not yet known, the disruption caused by the Coronavirus is affecting organizations and consumer activities worldwide, including disruption to major financial markets, supply chains, interruption of production, limited personnel, facility and store closures, and decreased demand from both business customers and consumers. SEARCH has been able to continue providing services both virtually and in-person. As of June 30, 2020, SEARCH is assessing the impact on its operation and cash flows but currently the disruption and uncertainty caused by the Coronavirus is far-reaching and the ultimate effects of this event is unknown.

# **SEARCH HOMELESS SERVICES**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019**

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### **Note 17 - Subsequent Events**

Management has evaluated subsequent events through November 5, 2020, 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 \* \* \***