

**Family Houston  
and  
Family Service Foundation of Houston**

Consolidated Financial Statements  
and Independent Auditors' Report  
for the years ended June 30, 2019 and 2018

# Family Houston and Family Service Foundation of Houston

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## Independent Auditors' Report

To the Board of Directors of  
Family Houston:

We have audited the accompanying financial statements of Family Houston and Family Service Foundation of Houston, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

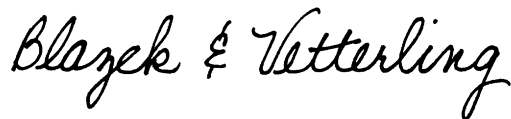
**Management's Responsibility for the Financial Statements** – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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.

**Auditors' Responsibility** – Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our 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 auditors' 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 the entity'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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 consolidated financial position of Family Houston and Family Service Foundation of Houston as of June 30, 2019 and 2018 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



November 5, 2019

## Family Houston and Family Service Foundation of Houston

Consolidated Statements of Financial Position as of June 30, 2019 and 2018

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	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 830,344	\$ 1,619,884
Contracts and other receivables	50,911	84,021
Prepaid expenses and other assets	80,522	73,216
Contributions receivable:		
United Way	1,227,128	1,282,389
Other	136,903	138,395
Investments (Note 4)	7,147,583	6,488,038
Property, net (Note 5)	<u>838,765</u>	<u>633,856</u>
 TOTAL ASSETS	 <u>\$ 10,312,156</u>	 <u>\$ 10,319,799</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 145,228	\$ 32,623
Accrued salaries and related expenses	312,974	322,449
Deferred revenue	<u>170,422</u>	<u>252,259</u>
Total liabilities	<u>628,624</u>	<u>607,331</u>
Net assets:		
Without donor restrictions (Note 6)	7,620,282	7,385,516
With donor restrictions (Note 7)	<u>2,063,250</u>	<u>2,326,952</u>
Total net assets	<u>9,683,532</u>	<u>9,712,468</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 10,312,156</u>	 <u>\$ 10,319,799</u>

*See accompanying notes to consolidated financial statements.*

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## Family Houston and Family Service Foundation of Houston

Consolidated Statement of Activities for the year ended June 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Service provider contracts <i>(Note 9)</i>	\$ 1,450,646		\$ 1,450,646
United Way contributions		\$ 2,488,119	2,488,119
Other contributions	156,273	302,706	458,979
Special event	163,985		163,985
Direct donor benefit costs from special event	(23,785)		(23,785)
Program fees	677,748		677,748
Net investment return	332,583	26,960	359,543
Rental and other income	88,541		88,541
	<u>2,845,991</u>	<u>2,817,785</u>	<u>5,663,776</u>
Net assets released from restrictions:			
Expiration of United Way restrictions	2,543,380	(2,543,380)	
Program expenditures	538,107	(538,107)	
	<u>5,927,478</u>	<u>(263,702)</u>	<u>5,663,776</u>
EXPENSES:			
Program services:			
Mental health	2,241,198		2,241,198
Financial stability	1,011,801		1,011,801
Basic needs	984,896		984,896
	<u>4,237,895</u>		<u>4,237,895</u>
Management and general	905,031		905,031
Fundraising	400,108		400,108
Building operations	149,678		149,678
	<u>5,692,712</u>		<u>5,692,712</u>
CHANGES IN NET ASSETS	234,766	(263,702)	(28,936)
Net assets, beginning of year	<u>7,385,516</u>	<u>2,326,952</u>	<u>9,712,468</u>
Net assets, end of year	<u>\$ 7,620,282</u>	<u>\$ 2,063,250</u>	<u>\$ 9,683,532</u>

*See accompanying notes to consolidated financial statements.*

## Family Houston and Family Service Foundation of Houston

Consolidated Statement of Activities for the year ended June 30, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Service provider contracts <i>(Note 9)</i>	\$ 1,710,066		\$ 1,710,066
United Way contributions		\$ 2,626,545	2,626,545
Other contributions	169,290	681,000	850,290
Special event	142,900		142,900
Direct donor benefit costs from special event	(22,322)		(22,322)
Program fees	542,718		542,718
Net investment return	458,377	44,054	502,431
Rental and other income	91,102		91,102
	<u>3,092,131</u>	<u>3,351,599</u>	<u>6,443,730</u>
Net assets released from restrictions:			
Expiration of United Way restrictions	2,642,049	(2,642,049)	
Program expenditures	1,024,521	(1,024,521)	
	<u>6,758,701</u>	<u>(314,971)</u>	<u>6,443,730</u>
EXPENSES:			
Program services:			
Mental health	2,045,276		2,045,276
Financial stability	904,203		904,203
Basic needs	1,218,065		1,218,065
Nurturing children and youth	244,922		244,922
	<u>4,412,466</u>		<u>4,412,466</u>
Management and general	1,094,884		1,094,884
Fundraising	328,247		328,247
Building operations	151,015		151,015
	<u>5,986,612</u>		<u>5,986,612</u>
CHANGES IN NET ASSETS BEFORE CONSOLIDATION OF FAMILY SERVICE FOUNDATION OF HOUSTON NET ASSETS			
	772,089	(314,971)	457,118
Family Service Foundation of Houston net assets, July 1, 2017	<u>5,084,817</u>	<u>499,844</u>	<u>5,584,661</u>
CHANGES IN NET ASSETS	5,856,906	184,873	6,041,779
Net assets, beginning of year	<u>1,528,610</u>	<u>2,142,079</u>	<u>3,670,689</u>
Net assets, end of year	<u>\$ 7,385,516</u>	<u>\$ 2,326,952</u>	<u>\$ 9,712,468</u>

*See accompanying notes to consolidated financial statements.*

## Family Houston and Family Service Foundation of Houston

Consolidated Statement of Functional Expenses for the year ended June 30, 2019

EXPENSES	MENTAL HEALTH	FINANCIAL STABILITY	BASIC NEEDS	TOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related expenses	\$ 1,977,063	\$ 856,378	\$ 666,691	\$ 3,500,132	\$ 681,196	\$ 286,459	\$ 4,467,787
Fees and contract services	44,585	39,927	13,160	97,672	113,999	60,593	272,264
Assistance to individuals			222,775	222,775			222,775
Occupancy	51,441	11,655	19,821	82,917	21,520	12,471	116,908
In-kind rent, supplies and services	46,978	35,814	13,745	96,537		537	97,074
Supplies	16,696	19,367	10,921	46,984	33,552	8,014	88,550
Software licenses	22,766	9,855	7,674	40,295	8,327	9,897	58,519
Depreciation	25,030	11,300	11,000	47,330	4,448	1,967	53,745
Insurance	22,094	9,553	7,440	39,087	7,839	3,215	50,141
Travel and training	18,816	10,107	4,678	33,601	1,350	3,540	38,491
Printing and publications	6,345	4,049	1,358	11,752	12,331	10,063	34,146
Telephone	7,200	2,722	4,802	14,724	1,927	699	17,350
Membership dues	1,830	415		2,245	300	320	2,865
Equipment costs	354	544	831	1,729	62	81	1,872
Other		115		115	18,180	2,252	20,547
Total expenses	<u>\$ 2,241,198</u>	<u>\$ 1,011,801</u>	<u>\$ 984,896</u>	<u>\$ 4,237,895</u>	<u>\$ 905,031</u>	<u>\$ 400,108</u>	5,543,034
Building operations							149,678
Direct donor benefit costs from special event							<u>23,785</u>
Total							<u>\$ 5,716,497</u>

*See accompanying notes to consolidated financial statements.*

## Family Houston and Family Service Foundation of Houston

Consolidated Statement of Functional Expenses for the year ended June 30, 2018

EXPENSES	MENTAL HEALTH	FINANCIAL STABILITY	BASIC NEEDS	NURTURING CHILDREN AND YOUTH	TOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related expenses	\$ 1,823,873	\$ 796,807	\$ 794,268	\$ 203,216	\$ 3,618,164	\$ 864,991	\$ 267,007	\$ 4,750,162
Fees and contract services	23,283	5,326	5,890	1,096	35,595	70,907	13,269	119,771
Assistance to individuals			330,184		330,184			330,184
Occupancy	46,266	8,734	22,169	5,360	82,529	20,550	11,391	114,470
In-kind rent, supplies and services	46,506	34,936	11,467		92,909			92,909
Supplies	17,819	22,431	10,957	11,891	63,098	21,221	10,896	95,215
Software licenses	19,235	8,411	8,355	2,050	38,051	9,118	2,782	49,951
Depreciation	11,774	5,205	7,012	1,410	25,401	6,809	2,018	34,228
Insurance	19,176	8,380	8,361	2,083	38,000	9,090	2,780	49,870
Travel and training	25,867	8,900	10,812	17,194	62,773	3,375	2,181	68,329
Printing and publications	1,603	2,897	581	81	5,162	11,369	12,631	29,162
Telephone	7,974	1,513	5,318	501	15,306	2,015	754	18,075
Membership dues	1,600	395			1,995	130		2,125
Equipment costs	300	132	1,247	40	1,719	306	45	2,070
Other		136	1,444		1,580	75,003	2,493	79,076
Total expenses	<u>\$ 2,045,276</u>	<u>\$ 904,203</u>	<u>\$ 1,218,065</u>	<u>\$ 244,922</u>	<u>\$ 4,412,466</u>	<u>\$ 1,094,884</u>	<u>\$ 328,247</u>	5,835,597
Building operations								151,015
Direct donor benefit costs from special event								<u>22,322</u>
Total								<u>\$ 6,008,934</u>

*See accompanying notes to consolidated financial statements.*



## Family Houston and Family Service Foundation of Houston

Consolidated Statements of Cash Flows for the years ended June 30, 2019 and 2018

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	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (28,936)	\$ 6,041,779
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Transfer of noncash net assets of Family Service Foundation of Houston		(5,301,515)
Net realized and unrealized gain on investments	(231,874)	(408,526)
Depreciation	53,745	34,228
Loss on valuation of contributions receivable	131,323	
Changes in operating assets and liabilities:		
Receivables	33,110	134,644
Prepaid expenses and other assets	(7,306)	22,155
Contributions receivable	(74,570)	123,148
Accounts payable	112,605	(29,582)
Accrued salaries and related expenses	(9,475)	(8,918)
Deferred revenue	<u>(81,837)</u>	<u>148,676</u>
Net cash provided (used) by operating activities	<u>(103,215)</u>	<u>756,089</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(693,707)	(1,015,656)
Sales of investments	655,000	580,000
Net sale (purchase) of money market mutual funds held as investments	(388,964)	341,069
Purchases of property	<u>(258,654)</u>	<u>(24,405)</u>
Net cash used by investing activities	<u>(686,325)</u>	<u>(118,992)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of note payable		<u>(65,107)</u>
NET CHANGE IN CASH	(789,540)	571,990
Cash, beginning of year	<u>1,619,884</u>	<u>1,047,894</u>
Cash, end of year	<u>\$ 830,344</u>	<u>\$ 1,619,884</u>

*See accompanying notes to consolidated financial statements.*

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## Family Houston and Family Service Foundation of Houston

Notes to Consolidated Financial Statements for the years ended June 30, 2019 and 2018

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### NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Serving Houston families since 1904, Family Houston is a Texas nonprofit corporation providing a wide range of health and human services for families in the greater Houston community. Family Houston's programs seek to create a stronger community for tomorrow by helping individuals and families meet the challenges they face today.

Family Houston's programs are summarized in the following categories:

- **Mental health:** Counseling and Parenting Resources, providing children, adolescents, and adults with individual, family and group counseling, as well as providing valuable information for raising resilient, self-disciplined children.
- **Financial stability:** Financial and Employment Coaching, guiding individuals and families as they budget, manage debt, improve credit, find employment, and achieve goals, as well as providing one-on-one coaching to help individuals reach their career goals.
- **Basic needs:** Intensive case management, connecting individuals and families to resources and benefits.

Family Service Foundation of Houston (the Foundation) is a Texas nonprofit corporation founded to support the mission and benevolent activities of Family Houston. Effective July 1, 2017, the Foundation amended and restated its certificate of formation and bylaws to be classified as a Type 1 supporting organization to Family Houston. Family Houston became the sole member of the Foundation. At July 1, 2017 assets totaling \$5,584,663 were consolidated with Family Houston.

Basis of consolidation – The accompanying financial statements include the assets, liabilities, net assets and activities of Family Houston and the Foundation. Balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – Family Houston and the Foundation are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code. Family Houston is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi). The Foundation is classified as a public charity under §509(a)(3)(b)(i) as a Type I supporting organization to Family Houston.

Cash concentration – Demand deposits exceed the federally insured limit per depositor per institution.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted, if material, to estimate the present value of future cash flows. At June 30, 2019, all contributions receivable are due within one year.

Allowance for uncollectible accounts – Family Houston provides an allowance for service provider contracts receivable and contributions receivable when it believes balances may not be collected in full. It is Family Houston's policy to write off receivables against the allowance when management determines the receivable will not be collected. The amount of bad debt expense recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and customer-by-customer analysis of receivable balances. It is possible that management's estimate regarding collectability will change in the near term resulting in a change in the carrying value of these receivables.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property is reported at cost if purchased and at fair value at date of gift if donated. Depreciation is provided using the straight-line method over estimated useful lives of 5 to 20 years for building and leasehold improvements, and 3 to 10 years for furniture and equipment. Items with a cost or fair value of \$2,000 or more and a useful life of more than 3 years are capitalized.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purposes.

Fees for service – Revenue from service provider contracts and program fees are recognized when the related services are provided. Amounts received in advance are deferred until earned.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Non-cash contributions – Donated materials and use of facilities are recognized at fair value when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (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. Family Houston recognized approximately \$97,000 and \$93,000 of contributed facility rent, supplies and services in 2019 and 2018, respectively. These amounts are included in contribution revenue and program services expenses in these financial statements.

Direct donor benefit costs represent the cost of goods and services provided to attendees of the special event.

Rental income is recognized as revenue ratably over the term of the lease.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one program or supporting activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and occupancy costs are allocated based on usage of related facilities.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – In June 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of

liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. Family Houston is required to apply the amendments in its fiscal year 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management has not determined the effect of adoption of the ASU will have on the financial statements.

## NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

Family Houston and the Foundation adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended June 30, 2019. These amendments have been applied on a retrospective basis to the financial statements for the year ended June 30, 2018, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

## NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019 comprise the following:

Financial assets at June 30, 2019:	
Cash	\$ 830,344
Receivables	50,911
Contributions receivable	1,364,031
Investments	<u>7,147,583</u>
Total financial assets	9,392,869
Less financial assets not available for general expenditure:	
Investments held by the Foundation, net of 2020 appropriation of approximately \$250,000	(5,268,060)
Board-designated cash held by the Foundation	<u>(193,123)</u>
Total financial assets available for general expenditure	<u>\$ 3,931,686</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Family Houston considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

Family Houston is substantially supported by contributions and service provider contracts, and regularly monitors liquidity required to meet its operating needs while striving to maximize the investment of available funds. As part of the organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Family Houston has an operating reserve policy to designate a minimum of two months of average recurring operating costs. Although Family Houston does not intend to spend from the operating reserve fund, amounts could be made available, if necessary. Operating investments are invested in certificates of deposit and mutual funds, which can be quickly sold and made available should the funds be needed.

## NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received

to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at June 30, 2019 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap index	\$ 1,440,092			\$ 1,440,092
Mid-cap index	1,384,969			1,384,969
Small-cap index	1,359,456			1,359,456
Short-term bond mutual funds	1,195,401			1,195,401
Money market mutual funds	964,904			964,904
Certificates of deposit		<u>\$ 802,761</u>		<u>802,761</u>
Total assets measured at fair value	<u>\$ 6,344,822</u>	<u>\$ 802,761</u>	<u>\$ 0</u>	<u>\$ 7,147,583</u>

Assets measured at fair value at June 30, 2018 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap index	\$ 1,304,639			\$ 1,304,639
Mid-cap index	1,284,374			1,284,374
Small-cap index	1,329,381			1,329,381
Short-term bond mutual funds	1,136,689			1,136,689
Money market mutual funds	575,940			575,940
Certificates of deposit		<u>\$ 857,015</u>		<u>857,015</u>
Total assets measured at fair value	<u>\$ 5,631,023</u>	<u>\$ 857,015</u>	<u>\$ 0</u>	<u>\$ 6,488,038</u>

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the reported net asset value of shares held.
- *Certificates of deposit* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes to calculate fair values.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Family Houston and the Foundation believes their valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investments are held for the following:

	<u>2019</u>	<u>2018</u>
Foundation endowments	\$ 2,808,446	\$ 2,652,604
Foundation undesignated	2,709,613	2,559,254
Family Houston undesignated	<u>1,629,524</u>	<u>1,276,180</u>
Total investments	<u>\$ 7,147,583</u>	<u>\$ 6,488,038</u>

#### NOTE 5 – PROPERTY

Property consists of the following:

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 467,428	\$ 467,428
Building and leasehold improvements	1,641,141	1,596,804
Furniture, equipment and software	<u>845,776</u>	<u>631,462</u>
Total property, at cost	2,954,345	2,695,694
Accumulated depreciation	<u>(2,115,580)</u>	<u>(2,061,838)</u>
Property, net	<u>\$ 838,765</u>	<u>\$ 633,856</u>

#### NOTE 6 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 4,458,929	\$ 4,557,954
Board-designated for general endowment	2,322,588	2,193,706
Property, net	<u>838,765</u>	<u>633,856</u>
Total net assets without donor restrictions	<u>\$ 7,620,282</u>	<u>\$ 7,385,516</u>

#### NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Family Houston:		
Financial stability	\$ 265,730	\$ 131,578
Basic needs	40,000	62,687
Mental health	9,531	147,908
Transition-Age Youth Service		148,489
Other programs		10,000
The Foundation:		
Donor-restricted for general endowment	485,858	458,898
Capacity building		<u>85,000</u>
Total subject to expenditure for specified purpose	<u>801,119</u>	<u>1,044,560</u>
Subject to the passage of time:		
Family Houston:		
United Way allocations for subsequent periods	1,227,131	1,282,392
Other contributions restricted for future operations	<u>35,000</u>	
Total subject to the passage of time	<u>1,262,131</u>	<u>1,282,392</u>
Total net assets with donor restrictions	<u>\$ 2,063,250</u>	<u>\$ 2,326,952</u>

## NOTE 8 – FOUNDATION ENDOWMENT FUNDS

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments.

Changes in the Foundation's endowment net assets are as follows:

	BOARD- DESIGNATED ENDOWMENT	WITH DONOR RESTRICTIONS		TOTAL
		ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	
Endowment net assets, June 30, 2017	\$ 1,983,113	\$ 204,379	\$ 210,465	\$ 2,397,957
Net investment return	<u>210,593</u>	<u>44,054</u>		<u>254,647</u>
Endowment net assets, June 30, 2018	<u>2,193,706</u>	<u>248,433</u>	<u>210,465</u>	<u>2,652,604</u>
Net investment return	<u>128,882</u>	<u>26,960</u>		<u>155,842</u>
Endowment net assets, June 30, 2019	<u>\$ 2,322,588</u>	<u>\$ 275,393</u>	<u>\$ 210,465</u>	<u>\$ 2,808,446</u>

The Board of Directors of the Foundation 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, the Foundation classifies the original value of gifts donated to the perpetual endowment as *net assets with donor restrictions* not subject to appropriation or expenditure. The remaining portion of the donor-restricted endowment fund is classified as *net assets with donor restrictions* subject to spending policy and appropriation until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Foundation considers the duration and reservation of the funds and other resources of the Foundation in making a determination to appropriate or accumulate donor-restricted endowment funds.

### Investment and Spending Policies

The Foundation has adopted investment and spending 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 these policies, as approved by the Board of Directors, the overall investment objective is to provide a maximum total return while exposing the Foundation to a reasonable, but not excessive amount of risk.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation 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.

The Foundation's endowment spending policy allows a maximum appropriation of 5% of the fund's fair market value determined based on a three-year rolling average. Distributions are approved by the Board of Directors of the Foundation annually.

## NOTE 9 – SERVICE PROVIDER CONTRACTS

Revenue from service provider contracts includes:

	<u>2019</u>	<u>2018</u>
Federal and state awards:		
Texas Veterans Commission	\$ 241,195	\$ 254,887
U. S. Department of Health and Human Services		184,247
Other	6,298	46,428
United Way THRIVE	993,223	850,714
United Way – Disaster recovery	92,396	287,182
United Way – other	91,878	86,608
Other sources	<u>25,656</u>	<u>          </u>
Total	<u>\$ 1,450,646</u>	<u>\$ 1,710,066</u>

Grants from government funding sources and the United Way require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by Family Houston with the terms of the contracts. Management believes such disallowances, if any, would not be material to Family Houston's financial position or changes in net assets.

## NOTE 10 – EMPLOYEE BENEFIT PLAN

Family Houston participates in a §403(b) plan administered by Mutual of America Life Insurance Company. Employees may elect to participate after one year of service by contributing up to 15% of their compensation to the plan. Each year, Family Houston makes a contribution of 2% of participants' compensation and, in addition, makes a matching contribution equal to 100% of the employee's contribution up to a maximum of 3% of the employee's compensation. Family Houston contributed approximately \$115,000 and \$111,000 to this plan during the years ended June 30, 2019 and 2018, respectively.

## NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 5, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.