

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

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2018 (Consolidated)
and 2017 (Unconsolidated)

Family Houston and Family Service Foundation of Houston

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Consolidated Statement of Financial Position as of June 30, 2018 and Statement of Financial Position as of June 30, 2017	2
Consolidated Statement of Activities for the year ended June 30, 2018	3
Statement of Activities for the year ended June 30, 2017	4
Consolidated Statement of Functional Expenses for the year ended June 30, 2018	5
Statement of Functional Expenses for the year ended June 30, 2017	6
Consolidated Statement of Cash Flows for the year ended June 30, 2018 and Statement of Cash Flows for the year ended June 30, 2017	7
Notes to Consolidated Financial Statements for the year ended June 30, 2018 and Financial Statements for the year ended June 30, 2017	8

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 statement of financial position as of June 30, 2018 and statement of financial position of Family Houston as of June 30, 2017 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

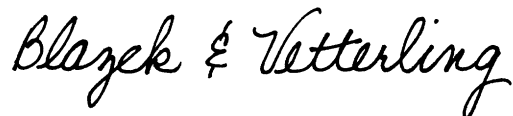
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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, 2018, the financial position of Family Houston as of June 30, 2017 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 8, 2018

Family Houston and Family Service Foundation of Houston

Consolidated Statement of Financial Position as of June 30, 2018 and Statement of Financial Position as of June 30, 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 1,619,884	\$ 1,047,894
Receivables:		
Service provider contracts	64,168	89,736
Other	19,853	128,070
Prepaid expenses and other assets	73,216	95,371
Pledges receivable:		
United Way	1,282,389	1,297,896
Other	138,395	246,036
Investments (Note 3)	6,488,038	1,274,178
Property, net (Note 4)	<u>633,856</u>	<u>40,324</u>
TOTAL ASSETS	<u>\$ 10,319,799</u>	<u>\$ 4,219,505</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 32,623	\$ 48,759
Accrued salaries and related expenses	322,449	331,367
Deferred revenue	252,259	103,583
Note payable	<u> </u>	<u>65,107</u>
Total liabilities	<u>607,331</u>	<u>548,816</u>
Net assets:		
Unrestricted (Note 5)	7,385,516	1,528,610
Temporarily restricted (Note 6)	2,116,487	2,142,079
Permanently restricted for general endowment (Note 7)	<u>210,465</u>	<u> </u>
Total net assets	<u>9,712,468</u>	<u>3,670,689</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,319,799</u>	<u>\$ 4,219,505</u>

See accompanying notes to financial statements.

Family Houston and Family Service Foundation of Houston

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

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Service provider contracts <i>(Note 8)</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 contributions	142,900			142,900
Direct donor benefit costs from special event	(22,322)			(22,322)
Program fees	542,718			542,718
Investment return <i>(Note 3)</i>	458,377	44,054		502,431
Rental and other income	<u>91,102</u>			<u>91,102</u>
Total revenue	3,092,131	3,351,599		6,443,730
Net assets released from restrictions <i>(Note 6)</i>:				
Expiration of United Way restrictions	2,642,049	(2,642,049)		
Program expenditures	<u>1,024,521</u>	<u>(1,024,521)</u>		
Total	<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
Basic needs	1,218,065			1,218,065
Financial stability	904,203			904,203
Nurturing children and youth	<u>244,922</u>			<u>244,922</u>
Total program services	4,412,466			4,412,466
Management and general	1,094,884			1,094,884
Fundraising	328,247			328,247
Building operations	<u>151,015</u>			<u>151,015</u>
Total expenses	<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 <i>(Note 2)</i>	<u>5,084,817</u>	<u>289,379</u>	<u>\$ 210,465</u>	<u>5,584,661</u>
CHANGES IN NET ASSETS	5,856,906	(25,592)	210,465	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>\$ 2,116,487</u>	<u>\$ 210,465</u>	<u>\$ 9,712,468</u>

See accompanying notes to consolidated financial statements.

Family Houston and Family Service Foundation of Houston

Statement of Activities for the year ended June 30, 2017

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Service provider contracts <i>(Note 8)</i>	\$ 1,862,129		\$ 1,862,129
United Way contributions		\$ 3,119,942	3,119,942
Other contributions	212,103	645,000	857,103
Special event contributions	266,325		266,325
Direct donor benefit costs from special event	(70,186)		(70,186)
Program fees	512,718		512,718
Loss on disposal of property	(21,221)		(21,221)
Investment return <i>(Note 3)</i>	1,824		1,824
Rental and other income	<u>12,139</u>		<u>12,139</u>
Total revenue	2,775,831	3,764,942	6,540,773
Net assets released from restrictions <i>(Note 6)</i>:			
Expiration of United Way restrictions	2,835,597	(2,835,597)	
Program expenditures	971,751	(971,751)	
Time restrictions	<u>405,000</u>	<u>(405,000)</u>	
Total	<u>6,988,179</u>	<u>(447,406)</u>	<u>6,540,773</u>
EXPENSES:			
Program services:			
Mental health	2,256,181		2,256,181
Basic needs	1,274,991		1,274,991
Financial stability	968,269		968,269
Nurturing children and youth	<u>940,100</u>		<u>940,100</u>
Total program services	5,439,541		5,439,541
Management and general	610,666		610,666
Fundraising	308,352		308,352
Building operations	<u>124,608</u>		<u>124,608</u>
Total expenses	<u>6,483,167</u>		<u>6,483,167</u>
CHANGES IN NET ASSETS	505,012	(447,406)	57,606
Net assets, beginning of year	<u>1,023,598</u>	<u>2,589,485</u>	<u>3,613,083</u>
Net assets, end of year	<u>\$ 1,528,610</u>	<u>\$ 2,142,079</u>	<u>\$ 3,670,689</u>

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

See accompanying notes to consolidated financial statements.

Family Houston and Family Service Foundation of Houston

Statement of Functional Expenses for the year ended June 30, 2017

EXPENSES	MENTAL HEALTH	BASIC NEEDS	FINANCIAL STABILITY	NURTURING CHILDREN AND YOUTH	TOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related expenses	\$ 1,723,294	\$ 807,405	\$ 781,475	\$ 747,098	\$ 4,059,272	\$ 280,763	\$ 211,205	\$ 4,551,240
Assistance to individuals		234,042			234,042			234,042
Fees and contract services	187,343	98,701	70,987	81,541	438,572	241,701	37,380	717,653
Occupancy	197,675	70,366	40,250	51,234	359,525	31,607	24,254	415,386
Supplies	35,024	12,809	13,079	17,547	78,459	21,515	21,434	121,408
In-kind rent, supplies and services	35,585	11,411	33,298	1,583	81,877			81,877
Travel and training	21,387	14,284	10,748	22,625	69,044	2,914	1,840	73,798
Insurance	18,755	8,829	8,421	8,222	44,227	3,363	2,243	49,833
Depreciation	10,572	5,974	4,537	4,405	25,488	3,444	1,445	30,377
Printing and publications	5,091	1,425	1,381	1,314	9,211	4,971	5,713	19,895
Telephone	13,064	5,545	1,506	1,627	21,742	1,680	517	23,939
Membership dues	3,369	853	718	1,051	5,991	588	806	7,385
Equipment costs	5,022	2,034	1,869	1,853	10,778	1,110	114	12,002
Other		1,313			1,313	17,010	1,401	19,724
Total	<u>\$ 2,256,181</u>	<u>\$ 1,274,991</u>	<u>\$ 968,269</u>	<u>\$ 940,100</u>	<u>\$ 5,439,541</u>	<u>\$ 610,666</u>	<u>\$ 308,352</u>	6,358,559
Building operations								124,608
Direct donor benefit costs from special event								<u>70,186</u>
Total expenses								<u>\$ 6,553,353</u>

See accompanying notes to financial statements.

Family Houston and Family Service Foundation of Houston

Consolidated Statement of Cash Flows for the year ended June 30, 2018 and Statement of Cash Flows
for the year ended June 30, 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 6,041,779	\$ 57,606
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Transfer of noncash net assets of Family Service Foundation of Houston	(5,301,515)	
Net realized and unrealized (gain) loss on investments	(408,526)	14,200
Depreciation	34,228	30,377
Loss on disposal of property		21,221
Changes in operating assets and liabilities:		
Receivables	134,644	54,563
Prepaid expenses and other assets	22,155	8,993
Pledges receivable	123,148	453,573
Accounts payable	(29,582)	4,732
Accrued salaries and related expenses	(8,918)	17,335
Deferred revenue	<u>148,676</u>	<u>(1,278)</u>
Net cash provided by operating activities	<u>756,089</u>	<u>661,322</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,015,656)	(11,820)
Sales of investments	580,000	200,000
Net sale (purchase) of money market mutual funds held as investments	341,069	(214,203)
Purchases of property	<u>(24,405)</u>	<u> </u>
Net cash used by investing activities	<u>(118,992)</u>	<u>(26,023)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of note payable	<u>(65,107)</u>	<u>(30,033)</u>
NET CHANGE IN CASH	571,990	605,266
Cash, beginning of year	<u>1,047,894</u>	<u>442,628</u>
Cash, end of year	<u>\$ 1,619,884</u>	<u>\$ 1,047,894</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$1,265	\$2,811

See accompanying notes to financial statements.

Family Houston and Family Service Foundation of Houston

Notes to Consolidated Financial Statements for the year ended June 30, 2018 and Financial Statements for the year ended June 30, 2017

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 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, Family Houston became the sole member of the Foundation (see Note 2).

Family Houston's programs are served in the following areas:

- **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.
- **Basic needs:** Intensive case management, connecting individuals and families to resources and benefits.
- **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.
- **Nurturing children and youth:** Provides consultation and coaching for students, families and school personnel, including prevention and education activities to reduce school drop-outs, gang activity and alcohol, drug and tobacco abuse.

Basis of consolidation – These financial statements include the assets, liabilities, net assets and activities of Family Houston and the Foundation for the year ended June 30, 2018. 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 – Demand deposits exceed the federally insured limit per depositor per institution.

Pledges receivable that are due within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. At June 30, 2018, all pledges are due within one year.

Allowance for uncollectible accounts – Family Houston provides an allowance for service provider contracts receivable and pledges receivable when it believes balances may not be collected in full. It is Family Service's policy to write off receivables against the allowance when management determines the receivable will not be collected. The amount of bad debt expense or loss on pledges 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. Investment income is reported in the consolidated statement of activities as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. Investment income whose use is restricted by the donor is reported as an increase in temporarily restricted net assets in accordance with donor-imposed restrictions.

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 – Contributions, investment return and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions and investment return restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity. The related investment return is available to support the operations of the Foundation or Family Houston.

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.

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 \$93,000 and \$96,000 of contributed facility rent, supplies and services in 2018 and 2017, 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.

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 pronouncements – In June 2018, the Financial Accounting Standards Board (FASB) 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 June 30, 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 on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information

to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. Family Houston and the Foundation are required to adopt this ASU effective June 30, 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – CONSOLIDATION OF THE FOUNDATION

Effective July 1, 2017, the Foundation amended and restated its certificate of formation and bylaws to be classified as a Type I supporting organization to Family Houston. Family Houston became the sole member of the Foundation. The assets and liabilities of the Foundation consolidated with Family Houston at July 1, 2017 consisted of the following:

Assets:	
Cash	\$ 283,146
Interest receivable	859
Investments	4,710,747
Property, net	603,355
Liabilities:	
Accounts payable and accrued expenses	<u>(13,446)</u>
Net assets, July 1, 2017	<u>\$ 5,584,661</u>

NOTE 3 – 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, 2018 are as follows:

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

Assets measured at fair value at June 30, 2017 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Short-term bond mutual funds	\$ 800,216			\$ 800,216
Certificates of deposit		\$ 200,575		200,575
Money market mutual funds	<u>273,387</u>			<u>273,387</u>
Total assets measured at fair value	<u>\$ 1,073,603</u>	<u>\$ 200,575</u>	<u>\$ 0</u>	<u>\$ 1,274,178</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 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 its 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>2018</u>	<u>2017</u>
Foundation endowments	\$ 2,652,604	
Foundation undesignated	2,559,254	
Family Houston undesignated	<u>1,276,180</u>	<u>\$ 1,274,178</u>
Total investments	<u>\$ 6,488,038</u>	<u>\$ 1,274,178</u>

Investment return consists of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 93,905	\$ 16,024
Net realized and unrealized gain (loss) on investments	<u>408,526</u>	<u>(14,200)</u>
Total investment return	<u>\$ 502,431</u>	<u>\$ 1,824</u>

NOTE 4 – PROPERTY

Property consists of the following:

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 467,428	
Building and leasehold improvements	1,596,804	\$ 23,910
Furniture and equipment	<u>631,462</u>	<u>378,461</u>
Total property, at cost	2,695,694	402,371
Accumulated depreciation	<u>(2,061,838)</u>	<u>(362,047)</u>
Property, net	<u>\$ 633,856</u>	<u>\$ 40,324</u>

NOTE 5 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 4,557,954	\$ 1,488,286
Board-designated for general endowment	2,193,706	
Property, net	<u>633,856</u>	<u>40,324</u>
Total unrestricted net assets	<u>\$ 7,385,516</u>	<u>\$ 1,528,610</u>

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

	<u>BALANCE JUNE 30, 2017</u>	<u>CONTRIBUTIONS AND INVESTMENT RETURN</u>	<u>UTILIZED FOR PROGRAMS</u>	<u>BALANCE JUNE 30, 2018</u>
Family Houston:				
United Way allocations for subsequent periods	\$ 1,297,896	\$ 2,626,545	\$ (2,642,049)	\$ 1,282,392
Transition-Age Youth Service	419,650	50,000	(321,161)	148,489
Mental health	25,000	288,000	(165,092)	147,908
Financial stability	121,525	253,000	(242,947)	131,578
Middle School Substance Abuse prevention	256,085		(256,085)	
Other programs	21,923	90,000	(39,236)	72,687
The Foundation:				
Accumulated earnings on general endowment funds	204,379	44,054		248,433
Capacity building	<u>85,000</u>			<u>85,000</u>
Total	<u>\$ 2,431,458</u>	<u>\$ 3,351,599</u>	<u>\$ (3,666,570)</u>	<u>\$ 2,116,487</u>

NOTE 7 – 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.

Foundation endowment funds by net asset classification for the year ended June 30, 2018 are as follows:

Donor-restricted for general endowment:		
Permanently restricted		\$ 210,465
Temporarily restricted		248,433
Board-designated general endowment funds		<u>2,193,706</u>
Total endowment net assets		<u>\$ 2,652,604</u>

Changes in the Foundation's endowment net assets for the year ended June 30, 2018 are as follows:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, June 30, 2017	\$ 1,983,113	\$ 204,379	\$ 210,465	\$ 2,397,957
Investment return:				
Interest and dividends	32,137	6,723		38,860
Net realized and unrealized gain	<u>178,456</u>	<u>37,331</u>		<u>215,787</u>
Total 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>

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 permanent endowment as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets 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 preservation 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 8 – SERVICE PROVIDER CONTRACTS

Revenue from service provider contracts includes:

	<u>2018</u>	<u>2017</u>
Federal and state awards:		
Texas Veterans Commission	\$ 254,887	\$ 304,195
U. S. Department of Health and Human Services	184,247	366,202
Texas Department of State Health Services	34,221	57,942
The Metropolitan Transit Authority of Harris County, Texas	12,207	39,937
United Way THRIVE	850,714	765,437
United Way – Disaster recovery	287,182	
United Way – other	86,608	208,643
United Way Baytown Area		15,400
Other sources		<u>104,373</u>
Total	<u>\$ 1,710,066</u>	<u>\$ 1,862,129</u>

Grants from government funding sources 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 9 – 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 \$111,000 and \$110,000 to this plan during the years ended June 30, 2018 and 2017, respectively.

NOTE 10 – COMMITMENTS

Family Houston leases office space under noncancelable operating leases. Lease expense was approximately \$160,000 during 2018 and \$431,000 during 2017. The future minimum lease payments at June 30, 2018 are as follows:

2019	\$ 108,384
2020	<u>11,452</u>
Total	<u>\$ 119,836</u>

Family Houston entered into a sublease agreement effective May 1, 2017 whereby a portion of the leased space is subleased to an organization under a noncancelable operating lease. Payments due under the sublease are as follows:

2019	\$ 79,663
2020	<u>13,277</u>
Total	<u>\$ 92,940</u>

Family Houston entered into a software licensing agreement with an annual maintenance fee of \$45,000 that is in effect for as long as Family Houston continues to utilize the software. It is anticipated that Family Houston will use the software for the foreseeable future.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 8, 2018, 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.
