

STAR OF HOPE MISSION
FINANCIAL STATEMENTS
DECEMBER 31, 2018

C O N T E N T S

	Page
Independent Auditor’s Report.....	2-3
Statement of Financial Position.....	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows.....	7
Notes to Financial Statements	8-19



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Star of Hope Mission

We have audited the accompanying financial statements of Star of Hope Mission (the Mission) (a Texas non-profit corporation), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, 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; 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 these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 risk 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 financial position of the Mission as of December 31, 2018, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2019, on our consideration of the Mission's internal control over financial reporting and 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 the 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 the Mission's internal control over financial reporting and compliance.

Harper & Pearson Company, P.C.

Houston, Texas
June 13, 2019

STAR OF HOPE MISSION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

Cash and cash equivalents	\$ 1,224,360
Receivables	2,137,663
United Way receivable	848,172
Pledges receivable, net	4,811,086
Short-term investment securities	7,976,863
Prepaid expenses and other assets	581,684
Land, buildings and equipment, net	67,725,943
Long-term investment securities	982,105
Beneficial interest in Trees of Hope	<u>316,089</u>
 TOTAL ASSETS	 <u>\$ 86,603,965</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued liabilities	\$ 2,338,116
Deferred revenues and rent	80,575
Notes payable and line of credit	<u>10,110,215</u>
 TOTAL LIABILITIES	 <u>12,528,906</u>

NET ASSETS

Without donor restrictions	63,240,946
With donor restrictions	<u>10,834,113</u>
 TOTAL NET ASSETS	 <u>74,075,059</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 86,603,965</u>
----------------------------------	----------------------

**STAR OF HOPE MISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenues:			
Contributions and other grants	\$ 13,517,183	\$ 8,507,137	\$ 22,024,320
Special events, net	966,619	628,005	1,594,624
In-kind contributions	2,802,083	-	2,802,083
Fees and grants from government agencies	1,428,972	-	1,428,972
Client fees	50,932	-	50,932
Investment return, net	(614,706)	(125)	(614,831)
Net change in beneficial interest in Trees of Hope	35,440	-	35,440
Miscellaneous	269,927	-	269,927
Net assets released from restrictions	<u>3,699,476</u>	<u>(3,699,476)</u>	<u>-</u>
 Total public support and revenues	 <u>22,155,926</u>	 <u>5,435,541</u>	 <u>27,591,467</u>
Expenses:			
Program Services			
Men's Development Center	5,382,561	-	5,382,561
Women and Family Development Center	15,362,394	-	15,362,394
Extended Services	<u>2,369,507</u>	<u>-</u>	<u>2,369,507</u>
 Total program services	 23,114,462	 -	 23,114,462
Management and general	3,027,200	-	3,027,200
Fundraising	<u>4,315,404</u>	<u>-</u>	<u>4,315,404</u>
 Total expenses	 <u>30,457,066</u>	 <u>-</u>	 <u>30,457,066</u>
 Change in net assets	 (8,301,140)	 5,435,541	 (2,865,599)
 Net Assets, beginning of year	 <u>71,542,086</u>	 <u>5,398,572</u>	 <u>76,940,658</u>
 Net Assets, end of year	 <u>\$ 63,240,946</u>	 <u>\$ 10,834,113</u>	 <u>\$ 74,075,059</u>

STAR OF HOPE MISSION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services				Management and General	Fundraising	Total
	Men's Development Center	Women and Family Development Center	Extended Services	Total Program Services			
Salaries	\$ 2,352,358	\$ 6,512,529	\$ 836,429	\$ 9,701,316	\$ 1,639,198	\$ 1,199,747	\$ 12,540,261
Benefits	507,458	1,580,455	160,572	2,248,485	310,746	251,100	2,810,331
Payroll taxes	177,257	485,515	63,915	726,687	118,630	86,195	931,512
Workers compensation	3,599	10,845	1,092	15,536	726	638	16,900
Total salaries and related expenses	3,040,672	8,589,344	1,062,008	12,692,024	2,069,300	1,537,680	16,299,004
Temporary help services	27,976	289,803	-	317,779	124,699	26,496	468,974
Professional fees and contract services	113,630	571,978	22,505	708,113	280,889	475,862	1,464,864
Supplies	290,427	513,807	77,693	881,927	5,108	2,331	889,366
Telephone	40,689	146,925	25,609	213,223	22,514	19,747	255,484
Postage and handling	1,315	1,650	19	2,984	6,514	164,021	173,519
Occupancy	464,534	817,610	61,971	1,344,115	103,579	91,384	1,539,078
Equipment rent maintenance and purchase	105,894	278,755	14,916	399,565	72,614	258,529	730,708
Printing and publications	5,556	6,405	556	12,517	50,044	534,963	597,524
Travel and transportation	28,520	56,530	15,455	100,505	13,490	4,655	118,650
Conferences, dues and certifications	2,807	5,203	206	8,216	22,832	1,261	32,309
Assistance to individuals and ministries	32,715	142,046	614,352	789,113	-	-	789,113
Donor acquisition	-	-	-	-	-	779,956	779,956
Bad debt expense	-	-	-	-	-	120,000	120,000
Bank charges and credit card fees	-	-	-	-	47,738	98,514	146,252
Interest expense	-	348,085	-	348,085	-	-	348,085
Miscellaneous expense	29,698	91,788	16,747	138,233	116,190	29,553	283,976
Total operating expenses	4,184,433	11,859,929	1,912,037	17,956,399	2,935,511	4,144,952	25,036,862
In-kind donations expense	933,251	1,305,412	457,470	2,696,133	3,782	156,765	2,856,680
Depreciation expense	264,877	2,197,053	-	2,461,930	1,805	13,687	2,477,422
Loss on sale of facility	-	-	-	-	86,102	-	86,102
Total expenses by function	5,382,561	15,362,394	2,369,507	23,114,462	3,027,200	4,315,404	30,457,066
Plus expenses netted against revenue on the statement of activities							
Cost of direct benefits to donors	-	-	-	-	-	589,212	589,212
Investment fees	-	-	-	-	72,908	-	72,908
Total expenses	<u>\$ 5,382,561</u>	<u>\$ 15,362,394</u>	<u>\$ 2,369,507</u>	<u>\$ 23,114,462</u>	<u>\$ 3,100,108</u>	<u>\$ 4,904,616</u>	<u>\$ 31,119,186</u>

See accompanying notes.

STAR OF HOPE MISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (2,865,599)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Net realized and unrealized loss on marketable securities	916,114
Depreciation	2,477,422
Amorization of debt issuance costs	26,268
Loss on sale of facility	86,102
Net change in beneficial interest in Trees of Hope	(65,440)
(Increase) decrease in operating assets:	
Receivables	(144,553)
United Way receivable	62,860
Pledges receivable, net	746,349
Prepaid expenses and other assets	164,515
Increase (decrease) in operating liabilities:	
Accounts payable and accrued liabilities	(2,072,996)
Deferred revenues and rent	<u>(22,203)</u>
 Total adjustments	 <u>2,174,438</u>
 Net cash used by operating activities	 <u>(691,161)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investment securities	(733,924)
Proceeds from sale or maturity of investment securities	878,156
Purchase of land, buildings and equipment	(253,847)
Proceeds from sale of facility	<u>163,898</u>
 Net cash provided by investing activities	 <u>54,283</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Debt issuance costs	(30,000)
Draws on line of credit and liquid asset line	3,538,497
Payments on line of credit and liquid asset line	(2,638,497)
Draws on notes payable	1,212,047
Payments on notes payable	<u>(3,778,641)</u>
 Net cash used by financing activities	 <u>(1,696,594)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (2,333,472)

CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR 3,557,832

CASH AND CASH EQUIVALENTS, AT END OF YEAR \$ 1,224,360

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest \$ 435,167

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES:

Retirement of fully depreciated property and equipment \$ 259,022

See accompanying notes.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Star of Hope Mission (the Mission) is a Christ-centered community dedicated to meeting the needs of homeless men, women and their children. Positive life changes are encouraged through structured programs which focus on spiritual growth, education, employment, life management and recovery from substance abuse. Residents are provided with individual counseling services, referrals and other assistance designed to obtain permanent housing and make lasting life changes. During the year, the Mission operated two facilities:

The Men's Development Center - a 328 bed facility which provides emergency shelter and life-recovery services to men at various stages of self-sufficiency.

The Women and Family Development Center - a 600 bed facility which provides emergency shelter and life-recovery services to single women and single-parent families at various stages of self-sufficiency, which began operations in August 2017. It is also occupied by other nonprofit organizations that provide permanent supportive housing, job readiness training and after school programs for children. The Mission will continue development of the campus in future years as demand for additional services materializes.

Additionally, the Mission's Extended Services program ministers to those on the brink of homelessness, the street homeless, and those who have exited homelessness by providing rent assistance, distribution of food and clothing, and operation of two supportive housing programs.

Concentration of Credit and Market Risk - Financial instruments which subject the Mission to concentrations of credit risk consist principally of cash and cash equivalents, receivables and marketable securities. The Mission places its cash and cash equivalents with a financial institution it believes to be creditworthy. At December 31, 2018, deposits with financial institutions exceed the amount of federal deposit insurance provided on such deposits by approximately \$974,000. These deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, the Mission periodically evaluates the stability of the financial institution.

The Mission's investments in marketable and nonmarketable securities subject the Mission to various levels of risk associated with economic, operating, and political events beyond management's control. Consequently, management's judgment as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on the Mission's investments. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term could materially impact the amounts reflected in the accompanying financial statements.

Use of Estimates - Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States (GAAP). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Mission considers all unrestricted, highly liquid investments with a maturity of three months or less to be cash equivalents.

Donations in Transit - Contributions postmarked by December 31 and received in January are included in receivables as donations in transit and contributions revenue in the current year.

Pledges Receivables - Generally, no collateral or other security is required to support receivables. An allowance for doubtful accounts is established and accounts written off as needed based upon factors surrounding the credit risk of specific contributors. At December 31, 2018, pledges from nine donors represented 89% of pledges.

Investment Securities - All marketable securities are measured at 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. Investment income or loss (including realized and change in unrealized gains and losses on marketable securities, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

It is the policy of the Mission to promptly sell all donated securities.

Land, Buildings and Equipment - Purchased land, buildings and equipment are recorded at cost. Donated land, buildings and equipment are recorded at fair value at the date of donation. Buildings and equipment are depreciated using the straight-line method based on the estimated useful lives of the assets, generally as follows:

Buildings and improvements	5-40 years
Equipment, furniture, computers and software	5-12 years
Vehicles	5-6 years

Change in Accounting Principle - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, on August 18, 2016. This new standard changes the manner in which net assets are classified and financial statements are prepared. The standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early adoption of the standard is permitted. The Mission elected to adopt the standard effective for the year ended December 31, 2017.

Financial Statement Presentation - Information regarding the financial position and activities of the Mission is reported in two categories as follows:

Net Assets Without Donor Restrictions - represent expendable funds available for operations which are not otherwise limited by donor restrictions.

Net Assets With Donor Restrictions - consist of (i) contributed funds subject to donor or grantor imposed restrictions related to a specific purpose or requiring a specific passage of time before the funds can be spent, and (ii) contributed funds subject to irrevocable donor restrictions requiring the assets be maintained in perpetuity for the purpose of generating investment income to fund current operations.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses - The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and amortization, and occupancy which are allocated on a square footage basis, as well as salaries and related benefits which are allocated on the basis of the number of direct program staff combined with estimates of time and effort for certain executive and support staff. Joint costs of activities that include a fundraising appeal are allocated based on management's estimate of the content ratio of the promotional materials.

Contributions - Contributions are recognized when the donor makes a promise to give to the Mission that is, in substance, unconditional. Contributions that are restricted by the donor for future periods or a specific purpose are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from donor restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give that are expected to be collected after one year or more are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate which was 2% at December 31, 2018. Amortization of the discount is included as contribution revenue. Conditional promises to give are not included as revenue until such time as the conditions are substantially met.

The Mission reports gifts of property and equipment as revenue without donor restrictions 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 support with donor restrictions.

If the only restriction on the unconditional promise to give is the construction or purchase of specified long-lived assets and absent explicit donor stipulations about how long those long-lived assets must be maintained, the Mission reports expirations of donor restrictions as the donated or acquired long-lived assets are placed in service.

Gifts in Kind - Donations are recorded as in-kind contributions at the estimated fair value of the gift. Food is recorded at the time of receipt, based on pre-established standards. Donations of clothing are not recorded until distributed to clients or other relief organizations. At the time of distribution, both the contribution value and related program expense are computed using standards set by management and which approximate the fair value for second-hand clothing.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services - Donated services are reported as in-kind contributions at fair value if the service would typically need to be purchased by the Mission if they had not been provided by contribution, required specialized skills and were provided by individuals with those skills. For the year ended December 31, 2018, the Mission recorded \$415,092 of donated professional services. In addition, many individuals also volunteer their time and perform a variety of tasks that assist the Mission with specific client assistance programs, general maintenance and other projects. The Mission received more than 30,000 (unaudited) volunteer hours during 2018, which are not reflected as revenues or expenses in the financial statements.

Income Taxes - The Mission is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Mission is subject to taxes on unrelated business income. Unrelated business income tax expensed in 2018, if any, is included in miscellaneous expense in the statement of functional expenses.

The Mission believes that all significant tax positions utilized by the Mission will more likely than not be sustained upon examination. As of December 31, 2018, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2015 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as management and general expense in the statement of activities.

Subsequent Events - The Mission has evaluated subsequent events through June 13, 2019, the date the financial statements were available to be issued. No subsequent events occurred or require adjustment or additional disclosure to the financial statements.

NOTE B LIQUIDITY AND AVAILABILITY

The Mission manages its liquidity by (i) developing a board approved annual budget that is cash neutral or reflects a surplus, (ii) monitoring liquidity with monthly cash flow projections, and (iii) when necessary, utilizing a \$7,500,000 bank revolving credit line, as disclosed in Note G, to assist with unanticipated liquidity needs. In addition, as discussed in Note I, the Mission's Board of Trustees has established a policy that 4% of the net asset value of the endowment funds, computed at the beginning of the year, shall be transferred to operations annually. This amount is included in the table of financial assets below. The endowment fund assets are pledged as collateral to secure the bank line of credit.

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are comprised of the following at December 31, 2018:

Cash and cash equivalents	\$ 506,920
Receivables	2,137,663
United Way receivables	848,172
Pledges receivable, net	1,897,994
4% Endowment distribution	376,484
Prepaid expenses and other assets	<u>581,684</u>
	<u>\$ 6,348,917</u>

NOTE C RECEIVABLES

Receivables consist of the following at December 31, 2018:

Government grants	\$ 338,144
Donations in transit	<u>1,799,519</u>
	<u>\$ 2,137,663</u>

NOTE D PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31, 2018:

Receivables due in less than one year	\$ 2,159,959
Receivables due in one to five years	2,778,675
Receivables due after five years	125,000
Less allowance for uncollectible pledges	(135,669)
Less discount on long-term pledges receivable at 2%	<u>(116,879)</u>
Total pledges receivable, net	<u>\$ 4,811,086</u>

NOTE E LAND, BUILDINGS AND EQUIPMENT

At December 31, 2018, the cost and accumulated depreciation of land, buildings and equipment were as follows:

Land	\$ 8,568,760
Land improvements	7,024,540
Buildings and improvements	53,789,907
Equipment and furniture	2,848,514
Vehicles	495,526
Computers and software	3,001,464
Construction in progress	<u>147,977</u>
	75,876,688
Less accumulated depreciation	<u>(8,150,745)</u>
	<u>\$ 67,725,943</u>

NOTE F RETIREMENT PLAN

The Mission has established a defined contribution retirement plan commonly referred to as a 401(k) plan. Employees may choose to defer a portion of their compensation and the investments are selected by the employees. The Mission, at its discretion, may choose to make contributions to the plan. The Mission's contribution is vested on a graduated scale over six years. At the end of six years of service, the employee is fully vested. For the year ended December 31, 2018, the Mission's contributions to the plan were approximately \$375,000.

NOTE G NOTES PAYABLE AND LINE OF CREDIT

On April 12, 2016, the Mission entered into a Construction Loan Agreement to finance construction of improvements at the Women and Family Development Center. The loan agreement, as amended on September 1, 2017 and September 27, 2018, consists of two loans: (i) a \$4,000,000 advancing term loan (Fixed Loan), and (ii) a \$6,000,000 advancing term loan (Floating Loan), as discussed further below. The Mission could request advances through December 31, 2018, and advances were made pro rata between the Fixed Loan and Floating Loan. The loans are secured by a first lien deed of trust on the Women and Family Development Center property and improvements totaling approximately \$59,000,000. The Mission is under restrictive covenants limiting additional borrowings.

Monthly interest payments are required for the duration of the loans, based on the following:

Fixed Loan - The interest rate on outstanding borrowings is fixed at 3.25% for the duration of the loan.

Floating Loan - The interest rate on outstanding borrowings will be floating at 30-day LIBOR + 175 basis points (indicative rate of 4.2699% at December 31, 2018).

In addition to monthly interest payments, installments of principal in an amount sufficient to reduce the aggregate outstanding balance to \$9,000,000 shall be due and payable on or before December 31, 2019, and such installments shall be applied to the fixed loan or floating loan as determined by the Mission. Installments of principal in an amount sufficient to reduce the aggregate outstanding balance to \$8,000,000 shall be due and payable on or before December 31, 2020, and such installments shall be applied to the fixed loan or floating loan as determined by the Mission. A final installment in the amount of all outstanding principal, plus accrued and unpaid interest, shall be due and payable on April 12, 2021.

All capital campaign proceeds will be used to reduce the principal balance of the loans.

During 2018, The Mission retired a Liquid Asset Line (LAL) which was collateralized by the investments held with the financial institution that manages the endowment funds. This LAL was replaced with a \$7,500,000 revolving line of credit (LOC) provided through the Mission's bank. This credit line is secured by certain investment accounts (see Note I). At December 31, 2018, the LOC had an outstanding balance of \$900,000. The credit line becomes due in full for all outstanding borrowings in November 2020. Prepayment of the amount outstanding is allowed. Interest is charged at the 1-month LIBOR rate plus 175 basis points (4.26% for December 2018) and is due monthly.

NOTE G NOTES PAYABLE AND LINE OF CREDIT (CONTINUED)

Notes payable and line of credit consist of the following at December 31, 2018:

Line of Credit	\$	900,000
Fixed Loan		3,877,913
Floating Loan		<u>5,415,193</u>
		10,193,106
Less unamortized debt issuance costs		<u>(82,891)</u>
		<u>\$ 10,110,215</u>

NOTE H NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2018:

Subject to expenditure for specific purpose:		
United Way receivable	\$	848,172
Client programs		2,803,783
Land, buildings, and equipment and related debt service		<u>5,504,153</u>
		9,156,108
Subject to passage of time:		
For periods after December 31		628,005
Subject to the Mission's spending policy and appropriation:		
Perpetual endowment fund		<u>1,050,000</u>
		<u>\$ 10,834,113</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows at December 31, 2018:

Satisfaction of program restrictions	\$	2,871,680
Satisfaction of equipment acquisition restrictions		126,671
Expiration of time restrictions		<u>701,125</u>
		<u>\$ 3,699,476</u>

NOTE I ENDOWMENT FUNDS

The Mission's Board of Trustees has established an endowment fund to provide funding for long-term needs, where the funds contributed by donors are not spent immediately, but are invested to provide a stream of earnings which can then be used or reinvested for later needs. Donations to the endowment are considered made without donor restrictions, unless restrictions are specified by the donor. The Mission has also established a Finance and Endowment Committee to administer the ongoing activities of the endowment and to ensure that proper records and controls are maintained to comply with donors' specific conditions.

The Mission's Board of Trustees has established a policy that at least 4% of the net asset value of this fund, computed at the beginning of the year, shall be transferred to operations annually. Expending any amount in excess of 4% of the net asset value of the endowment or expending any portion of the initial contributions (both donor contributions and Mission transfers) to the endowment requires Finance and Endowment Committee recommendation and the vote of 75% of the entire Board of Trustees. Additionally, the assets of the endowment fund are collateral used to secure the Mission's revolving credit facility (see Note G) and except for the 4% annual draw are not available for expenditure.

The endowment funds are invested in accordance with an investment policy. The primary objectives, as stated in the policy, are preservation of capital and to achieve returns in excess of the rate of inflation to preserve purchasing power of the funds, while controlling risk.

The Mission also has a perpetual endowment fund. The Mission has interpreted The Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result, the Mission classifies the original value of the gifts donated to the perpetual endowment as net assets with donor restrictions. The net appreciation or depreciation to the endowment fund investment accounts is classified as board designated net assets.

The composition of and changes in endowment net assets as of December 31, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 8,362,108	\$ -	\$ 8,362,108
Donor restricted funds:			
Original donor restricted gift and amount required to be retained by donor	-	1,050,000	1,050,000
Total funds	\$ 8,362,108	\$ 1,050,000	\$ 9,412,108

NOTE I ENDOWMENT FUNDS (CONTINUED)

Changes in endowment net assets are as follows for the year ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 9,299,572	\$ 1,050,000	\$ 10,349,572
Investment returns, net	(656,230)	-	(656,230)
Appropriation of endowment net assets for expenditures	(413,983)	-	(413,983)
Contributions received	132,749	-	132,749
Endowment net assets, end of year	\$ 8,362,108	\$ 1,050,000	\$ 9,412,108

NOTE J JOINT COSTS OF ACTIVITIES THAT INCLUDE A FUNDRAISING APPEAL

The Mission conducts various activities that include requests for contributions as well as program and general and administrative components. These activities include advertising, public relations, and print communications. The costs associated with these activities include joint costs not directly attributable to any single function. During the year ended December 31, 2018, these costs were allocated among the following functional expense categories as follows:

Fund Raising	\$ 2,372,495
Men's Development Center	29,026
Women and Family Development Center	56,735
Management and general	391,282
	\$ 2,849,538

NOTE K FAIR VALUE MEASUREMENTS

GAAP provides a framework for measuring fair value using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments and the lowest priority to unobservable inputs. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The financial instrument'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.

NOTE K FAIR VALUE MEASUREMENTS (CONTINUED)

These inputs are summarized in the three broad levels listed below:

Level 1 - Unadjusted quoted prices for identical financial instruments in active markets that the Mission has the ability to access.

Level 2 - Other significant observable inputs (including quoted prices in active or inactive markets for similar financial instruments), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial instruments.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the financial instruments. The fair value of Level 3 financial instruments is determined using significant management judgment or estimation.

The following is a description of the valuation techniques used for assets measured at fair value.

Equity securities and mutual funds are actively traded securities. Valuation inputs normally include quoted bid price in active markets for identical assets.

The fair value of corporate bonds is determined using recently executed transactions, market price quotations (where observable), bond spreads or credit default swap spreads, at the money volatility and/or volatility skew obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments. When position-specific external price data are not observable, fair value is determined based on either benchmarking to similar instruments or cash flow models with yield curves, bond or single-name credit default swap spreads and recovery rates as significant inputs.

Alternative investments consist of a fund of funds which include investment vehicles such as equity securities and mutual funds listed on the NASDAQ stock exchange. The fair value of the alternative investment is determined by the fund's manager based on the fair value of the underlying assets. They have no contractual investment period and are used to further diversify the investment portfolio.

There have been no changes in the techniques used during 2018. There were no significant transfers in and/or out of the fair value categories during 2018. The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Mission believes its valuation techniques are appropriate and consistent with other market participants, the use of different techniques or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**STAR OF HOPE MISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE K FAIR VALUE MEASUREMENTS (CONTINUED)

The fair values of financial instruments are categorized as follows as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Equity securities:				
Common stock	\$ 4,523,833	\$ -	\$ -	\$ 4,523,833
Preferred stock	345,141	-	-	345,141
Fixed income:				
Corporate bonds	-	122,806	-	122,806
Mutual funds:				
Fixed income	1,902,904	-	-	1,902,904
Equity	1,082,179	-	-	1,082,179
Alternative investments:				
Fund of funds	-	982,105	-	982,105
	<u>\$ 7,854,057</u>	<u>\$ 1,104,911</u>	<u>\$ -</u>	<u>\$ 8,958,968</u>

NOTE L RELATED PARTIES

Trees of Hope is a charitable 501(c)(3) corporation that donates the net proceeds from its fundraising activities to the Mission. Trees of Hope is controlled by a Board of Directors separate from that of the Mission; therefore consolidated financial statements are not required. Instead, the Mission records its beneficial interest in the net assets of Trees of Hope. Contributions recorded during 2018 totaled \$230,000.

NOTE M COMMITMENTS AND CONTINGENCIES

The Mission leases office, warehouse and activity center space under operating leases with future commitments as follows:

2019	\$ 435,148
2020	264,865
2021	127,978
2022	<u>63,285</u>
	<u>\$ 891,276</u>

Rent expense amounted to \$1,047,496 for 2018.

NOTE M COMMITMENTS AND CONTINGENCIES (CONTINUED)

Amounts received from government and other grants require the fulfillment of certain conditions as set forth in the grant contracts. The Mission intends to fulfill the conditions of all grants, recognizing that the failure to fulfill the conditions could result in the return of the funds to the grantors. Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of the Mission. In management's opinion, disallowed claims, if any, would not have a material adverse effect on the Mission's financial position or results of operations.

In August 2011, the Mission executed a Deed of Trust covering the Men's Development Center in favor of the Federal Home Loan Bank of Dallas in exchange for funding of a grant in the amount of \$500,000. The funds were used to partially rehabilitate the shelter and under the Agreement, the Mission must continue to use the facility to meet the needs of the homeless for a fifteen-year term. Repayment would be required if the Mission were to change the use or sell the property. The Mission also has certain annual reporting requirements under the agreement.

On January 27, 2017, the Mission entered into a performance based loan in the amount of \$800,000 with the City for use in construction of certain residential buildings at the Women and Family Development Center. Under the terms of the agreement, the loan balance is automatically reduced by \$160,000 each year (at no liability to the Mission) until it expires in five years. The Mission would be required to pay off the unpaid principal balance if it sells, transfers or assigns its interest in the facility within the five-year period.

On January 8, 2018, the Mission executed a Deed of Trust covering the single women's residential building at the Women and Family Development Center in favor of the Federal Home Loan Bank of Dallas in exchange for funding of a grant in the amount of \$500,000. The funds were used to partially finance construction of the building and under the agreement, the Mission must continue to use the facility to meet the needs of the homeless for a fifteen-year term. Repayment would be required if the Mission were to change the use or sell the property. The Mission also has certain annual reporting requirements under the agreement.