

HALO HOUSE FOUNDATION

FINANCIAL STATEMENTS

December 31, 2018

abip

CPAs | ADVISORS

CLIENT **FOCUSED.** RELATIONSHIP **DRIVEN.**

HALO HOUSE FOUNDATION

TABLE OF CONTENTS

December 31, 2018

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-10

INDEPENDENT AUDITORS' REPORT

To: The Board of Directors
Halo House Foundation

We have audited the accompanying financial statements of **Halo House Foundation** (the "Organization"), which are comprised of 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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 **Halo House Foundation** as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

ABIP, PC
Houston, Texas

June 17, 2019

HALO HOUSE FOUNDATION
STATEMENT OF FINANCIAL POSITION

December 31, 2018

ASSETS

Cash and cash equivalents	\$ 4,047,653
Pledges receivable	1,608,530
Other current assets	795
Cash - donor restricted for capital expenditures	3,121,826
Property and equipment, net	<u>3,951,481</u>
TOTAL ASSETS	<u><u>\$ 12,730,285</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable - trade	\$ 23,799
Accounts payable - construction related	450,183
Other current liabilities	<u>700</u>
 Total liabilities	 <u>474,682</u>

NET ASSETS:

Without donor restrictions:	
Board designated	1,050,000
Undesignated	<u>3,011,780</u>
Total net assets without donor restrictions	4,061,780
 With donor restrictions	 <u>8,193,823</u>
 Total net assets	 <u>12,255,603</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 12,730,285</u></u>
---	------------------------------------

The accompanying notes are an integral part of these financial statements.

HALO HOUSE FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
CHANGES IN NET ASSETS:			
Support and revenues:			
Foundations	\$ 123,200	\$ 125,000	\$ 248,200
Contributions	1,098,761	2,442,648	3,541,409
Program rental income	78,271	-	78,271
Fundraising events (net of direct costs of \$80,537)	437,443	-	437,443
In-kind contributions	60,000	311,000	371,000
Interest income	18,684	-	18,684
Total support and revenues	<u>1,816,359</u>	<u>2,878,648</u>	<u>4,695,007</u>
Expenses:			
Programs	284,667	-	284,667
Management and general	57,705	-	57,705
Fundraising	46,700	-	46,700
Total expenses	<u>389,072</u>	<u>-</u>	<u>389,072</u>
Support and revenues over expenses	1,427,287	2,878,648	4,305,935
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>
CHANGES IN NET ASSETS	1,427,287	2,878,648	4,305,935
NET ASSETS, beginning of year	<u>2,634,493</u>	<u>5,315,175</u>	<u>7,949,668</u>
NET ASSETS, end of year	<u>\$ 4,061,780</u>	<u>\$ 8,193,823</u>	<u>\$ 12,255,603</u>

The accompanying notes are an integral part of these financial statements.

HALO HOUSE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2018

	Supporting Services			Total
	Programs	Management and General	Fundraising	
Salaries	\$ 80,301	\$ 10,707	\$ 16,060	\$ 107,068
In-kind salaries (note 1)	20,000	20,000	20,000	60,000
Other personnel costs	6,992	777	-	7,769
Total salaries and related benefits	107,293	31,484	36,060	174,837
Apartment rent	120,754	-	-	120,754
Utilities	36,324	-	-	36,324
Contract services	-	2,304	256	2,560
Credit card processing fees	1,991	443	1,992	4,426
Accounting fees	-	13,500	-	13,500
Office expense	8,038	4,019	4,019	16,076
Office rent	8,747	4,373	4,373	17,493
Insurance	1,520	1,582	-	3,102
Total expenses	<u>\$ 284,667</u>	<u>\$ 57,705</u>	<u>\$ 46,700</u>	<u>\$ 389,072</u>

The accompanying notes are an integral part of these financial statements.

HALO HOUSE FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	<u>\$ 4,305,935</u>
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Donated services for capital expenditures	(311,000)
Contributions restricted for long-term purposes	(2,567,648)
Changes in operating assets and liabilities:	
Pledges receivable for operations	22,567
Accounts payable - trade	18,086
Other current liabilities	<u>(1,075)</u>
Total adjustments	<u>(2,839,070)</u>
Net cash provided by operating activities	<u>1,466,865</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures	(2,944,703)
Decrease in cash restricted for capital expenditures	<u>483,155</u>
Net cash used by investing activities	<u>(2,461,548)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Contributions restricted for long-term purposes	<u>2,461,548</u>
Net cash provided by financing activities	<u>2,461,548</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,466,865
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,580,788</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 4,047,653</u></u>

The accompanying notes are an integral part of these financial statements.

HALO HOUSE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(1) Summary of significant accounting policies

Nature of activities

Halo House Foundation (the “Organization”) was incorporated under the laws of the state of Texas on December 10, 2009 and is a 501(c)(3) non-profit organization. The mission of the Organization is to provide temporary furnished housing to blood cancer patients while they are in active treatment at the Texas Medical Center in Houston, Texas.

The Organization is supported through contributions received from individuals, corporations and foundations, as well as fundraisers.

Basis of accounting

The Organization prepares its financial statements using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, and, accordingly, support and revenues are recognized when earned, and expenses are recognized when incurred.

Recently issued accounting standards

Accounting Standards Update (“ASU”) 2014-09 (as revised), *Revenue from Contracts with Customers*, amends and supersedes the current revenue recognition requirements and creates a new accounting standard. ASU 2014-09 removes inconsistencies and weaknesses in current revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, provides more useful information to the users of financial statements through improved disclosure requirements and reduces the number of requirements to which an entity must refer. The provisions of ASU 2014-09 are effective for the Organization in 2019 and may be applied retrospectively to each prior reporting period presented or as a cumulative effect recognized at the date of initial application. The Organization is in the process of evaluating the impact of adopting ASU 2014-09 on the Organization’s financial statements.

In August, 2016, Financial Accounting Standards Board (“FASB”) issued ASU 2016-14, *Not-for-Profit Entities*. The amendments in this update change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources, and the changes in those resources, to the users of the financial statement. Effective January 1, 2018, the Organization adopted the provisions of ASU 2016-14. There was no significant change to the financial statements as a result of this change.

In August, 2016, FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. This update amends Accounting Standards Codification (“ASC”) Topic No. 230 “Statement of Cash Flows” and provides guidance and clarification on presentation of certain cash flow issues. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. Effective January 1, 2018, the Organization adopted ASU No. 2016-15. There was no significant change to the financial statements as a result of this change.

Net asset classification

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

- *Net assets without donor restrictions* 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.
- *Net assets with donor restrictions* include contributions restricted by the donor for specific purposes or future time periods.

HALO HOUSE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(1) Summary of significant accounting policies (continued)

Revenue recognition

Program income and other income are recognized when earned. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on passage of time.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions are met in the fiscal year in which the contributions are recognized. All other donor-restricted contributions 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 restrictions.

Contributed services

The Organization recognizes contributed services at their fair value if the services provide value to the Organization and require specialized skills, are provided by individuals possessing those skills, and would have been purchased if not provided by contributors. In-kind contributions for the year ended December 31, 2018 included \$60,000 for the estimated salary of the executive director, who does not receive paid compensation for her services.

Pledges receivable

Pledges receivable are considered by the Organization to be fully collectible and accordingly no allowance for doubtful accounts is considered necessary. If amounts become uncollectible, program expenses will be charged when the determination is made.

Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments and other similar short-term investments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of credit risk

The Organization primarily invests its excess cash in deposits with various banks, and at times, these deposits may exceed federally insured limits. The Organization manages this risk by selecting depository institutions based, in part, upon its review of the financial stability of the institutions and has not experienced any losses on such accounts.

Functional allocation of expense

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Fair value of financial instruments

The carrying amounts of financial instruments including cash, pledges receivable and accounts payable, and other current liabilities approximated fair value as of December 31, 2018.

HALO HOUSE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(1) Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are recorded at cost or, in the case of donated assets, fair market value at the date of the gift. The Organization capitalizes all individual expenditures for property and equipment in excess of \$1,000. Donated assets are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor and reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Depreciation of property and equipment is provided on a straight-line basis over the estimated useful lives of the assets.

Maintenance and repairs are charged to expense as incurred. Costs of betterments and renewals are capitalized. Gains or losses upon disposal of assets are recognized in the period during which the transaction occurs.

Long-lived assets

The Organization's long-lived assets and other assets to be held and used are reviewed for impairment in accordance with the guidance of FASB ASC 360-10, *Property, Plant, and Equipment*, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. The Organization has determined that there are no impairment losses for the year ended December 31, 2018.

Income taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Gifts to the Organization are tax deductible. The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for 2018. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2015.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

HALO HOUSE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(1) Summary of significant accounting policies (continued)

Subsequent events

The Organization has evaluated all events and transactions that occurred after December 31, 2018 and through June 17, 2019, the date that the financial statements were available to be issued. No events have occurred that would have a material effect on the financial statements.

(2) Pledges receivable

Pledges receivable at December 31, 2018 are expected to be collected as follows:

Amounts due in:		
One year		\$ 1,572,915
Two years to five years		35,615
		\$ 1,608,530
		\$ 1,608,530

(3) Property and equipment

Property and equipment, less accumulated depreciation, at December 31, 2018 included the following:

	<u>Estimated useful lives</u>	
Construction in progress	-	\$ 3,951,481
Furniture and equipment	5 years	4,900
		3,956,381
Less: accumulated depreciation		(4,900)
		\$ 3,951,481

(4) Net assets with donor restrictions

At December 31, 2018, net assets with donor restrictions of \$8,193,823 are restricted for capital expenditures and consisted of the following:

Pledges receivable	\$ 1,596,400
Restricted cash	3,121,826
Construction in progress	3,925,780
Accounts payable - construction related	(450,183)
	\$ 8,193,823

HALO HOUSE FOUNDATION
NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(5) Liquidity and availability of resources

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and cash equivalents	\$ 4,047,653
Pledges receivable not restricted for capital expenditures	<u>12,130</u>
Total financial assets available within one year	4,059,783
Less:	
Amounts unavailable to management without Board's approval:	
Board designated	<u>1,050,000</u>
Total financial assets available to management for general expenditures within one year	<u><u>\$ 3,009,783</u></u>

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

(6) Concentrations

The Organization is dependent on several sources of support and revenue. Funds from one foundation approximated 45% of the Organization's support for the year ended December 31, 2018.