# HALO HOUSE FOUNDATION

Financial Statements
for the Year Ended December 31, 2013

BENNOCH & WALKER LLC
CERTIFIED PUBLIC ACCOUNTANTS

# HALO HOUSE FOUNDATION

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BENNOCH & WALKER LLC
CERTIFIED PUBLIC ACCOUNTANTS

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Halo House Foundation
Houston, Texas

We have audited the accompanying financial statements of Halo House Foundation (a nonprofit organization) which comprise the statement financial position as of December 31, 2013, 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.

## 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 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, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Bennoch & Walker LLC

Bennoch & Walker LLC
Certified Public Accountants
Houston, Texas

August 18, 2014

**HALO HOUSE FOUNDATION**
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013

| | |
|---|---|
| ASSETS | |
| Cash and cash equivalents | $ 1,225,491 |
| Deposits | 1,145 |
| Prepaid rent | 695 |
| Planned construction in progress | 25,000 |
| Property and equipment, net | 2,048 |
| TOTAL ASSETS | $ 1,254,379 |
| LIABILITIES AND NET ASSETS | |
| Liabilities | |
| Accounts payable | $ 1,896 |
| Other liabilities | 1,040 |
| Total Liabilities | 2,936 |
| Net Assets | |
| Unrestricted | 1,251,443 |
| Temporarily restricted | - |
| Total Net Assets | 1,251,443 |
| TOTAL LIABILITIES AND NET ASSETS | $ 1,254,379 |

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

**HALO HOUSE FOUNDATION**
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| Public Support and Revenues | | | |
| Grants | $ 120,000 | $ - | $ 120,000 |
| Contributions | 123,365 | - | 123,365 |
| In-kind contributions | 847 | - | 847 |
| Donated professional services | 25,000 | - | 25,000 |
| Program rental income | 56,635 | - | 56,635 |
| Fundraising, net direct benefit to to donor of $49,523 | 315,371 | - | 315,371 |
| Interest income | 789 | - | 789 |
| Total Public Support and Revenues | 642,007 | - | 642,007 |
| Net assets released from temporary restrictions | - | - | - |
| Total Public Support and Revenues, and releases from temporary restrictions | 642,007 | - | 642,007 |
| Expenses | | | |
| Program expenses | 166,116 | - | 166,116 |
| Total Program Expenses | 166,116 | - | 166,116 |
| Supporting Services: | | | |
| Management and general | 6,495 | - | 6,495 |
| Fundraising | 22,055 | - | 22,055 |
| Total Supporting Services | 28,549 | - | 28,549 |
| Total Expenses | 194,665 | - | 194,665 |
| Change in Net Assets | 447,342 | - | 447,342 |
| Net Assets, Beginning of Year | 804,101 | - | 804,101 |
| NET ASSETS, END OF YEAR | $ 1,251,443 | $ - | $ 1,251,443 |

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

**HALO HOUSE FOUNDATION**
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

| | | Supporting Services | | |
|---|---|---|---|---|
| | Program | Management & General | Fundraising | Total |
| Fundraising | $ - | $ - | $ 12,944 | $ 12,944 |
| Program expenses | 116,852 | - | - | 116,852 |
| Bank charges | - | 12 | - | 12 |
| Contract services | 8,960 | 1,120 | 1,120 | 11,200 |
| Credit card processing fees | 6,467 | 719 | - | 7,185 |
| Insurance | - | - | - | - |
| Marketing | - | 132 | - | 132 |
| Meals and entertainment | - | - | - | - |
| Office expense | 7,068 | 1,414 | 5,654 | 14,135 |
| Office rent | 2,780 | 556 | 2,224 | 5,560 |
| Parking and tolls | 15 | - | - | 15 |
| Payroll | 22,883 | 2,543 | - | 25,425 |
| Seminars and training | 113 | - | 113 | 225 |
| Depreciation Expense | 980 | - | - | 980 |
| EXPENSES | $ 166,116 | $ 6,495 | $ 22,055 | $ 194,665 |

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

**HALO HOUSE FOUNDATION**
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

| | |
|---|---|
| Change in net assets | $ 447,342 |
| | |
| Adjustments to reconcile change in net assets | |
| activities to net cash from operating: | |
| Depreciation | 980 |
| Change in operating assets and liabilities | |
| Accounts receivable | 4,007 |
| Deposits | (695) |
| Prepaid rent | (695) |
| Accounts payable | 786 |
| Other liabilities | 340 |
| Net Cash from Operating Activities | 452,065 |
| | |
| Cash Flows from Investing Activities | |
| Planned construction in progress | (25,000) |
| Net Cash from Investing Activities | (25,000) |
| | |
| Net Change in Cash and Cash Equivalents | 427,065 |
| | |
| Cash and Cash Equivalents, Beginning of Year | 798,426 |
| | |
| Cash and Cash Equivalents, End of Year | $ 1,225,491 |

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

## NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Business –** Halo House Foundation (the "Organization"), a Texas nonprofit organization, was founded on October 5, 2009, and was approved as a 501(c)(3) entity on March, 10, 2010. 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 financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

**Financial Statement Presentation –** The Organization's financial statements are presented in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 958-205-45-4, Financial Statements of Not-for-Profit Organizations. Under FASB ASC 958-205-45-4, the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the Organization. As of December 31, 2013, the Organization had $1,251,443 of unrestricted resources.

Temporarily restricted net assets – These are resources that are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. The Organization did not have any temporarily restricted net assets as of December 31, 2013.

Permanently restricted net assets – These are resources that are subject to donor restrictions requiring that the principal be held in perpetuity and any income thereon be used by the Organization. The Organization did not have any permanently restricted net assets as of December 31, 2013.

In addition, the Organization is required by FASB ASC 958-205-45-4 to present a statement of cash flows.

**Revenue Recognition –** Generally, grants are recognized as revenues when earned. Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues only to the extent of disbursements and commitments that are allowable for reimbursement. Revenues from contributions, donations and other sources are recognized as unrestricted or temporarily restricted revenues when received or unconditionally promised by a third party. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on passage of time. Program income and other income are recognized when received.

**Contributions and Promises to Give –** In accordance with FASB ASC 958-605-45-3, Accounting for Contributions Received and Contributions Made, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give cash or other assets are not recognized as revenues until received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions were recognized. All other donor-restricted contributions would be reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

The Organization uses the allowance method to determine uncollectible grant and promise to give receivables. The allowance is based on management's analysis of specific promises made. The Organization considers all grant and promise to give receivables to be fully collectible; accordingly no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

**Contributed Services and Facilities –** 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, as established by FASB ASC 958-605-25-26.

**Donations –** Donations are recorded as contributions at fair value at the date of donation. Such donations are reported as unrestricted net assets unless the donor has restricted the donated assets 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 contributions. 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 restricted by the donor.

The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**Cash and Cash Equivalents –** The Organization considers all monies in banks and highly liquid investments with maturities of three months or less from the date of purchase to be cash and cash equivalents. The carrying values of any cash and cash equivalents are deemed to approximate their fair values because of the short maturities of those financial instruments.

**Property and Equipment –** The Organization capitalizes all expenditures for property and equipment in excess of $1,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at fair value at the date of donation. Property and equipment items are depreciated using the straight-line method based on their estimated useful lives ranging from 5 to 7 years. Maintenance and repairs are charged to operations when incurred. Major improvements and renewals that extend the life of the asset are capitalized.

**Functional Allocation of Expenses –** Expenses are categorized in the Statement of Activities as program services, fundraising and management and general. The Organization's expenses are allocated on a functional basis among these benefited categories.

Program service expenses include direct and indirect (allocated) expenses for the various programs offered by the Organization. Expenses that can be identified with a specific program and support services are allocated directly according to their natural expenditure classification. Other expenses, that are common to several functions, are allocated to program services by various reasonable bases.

Fundraising expenses represent cost incurred in connection with fundraising efforts. 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.

**Income Taxes –** The Organization is a nonprofit corporation that is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code ("Code") and comparable State law, and contributions to it are tax deductible within the limitations prescribed by the Code. The Organization did not conduct any unrelated business activities in the current fiscal year. Therefore, the Organization has made no provision for federal income taxes in the accompanying financial statements.

The Organization applies the provisions of FASB ASC Topic 740, Income Taxes, (formerly FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109), which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

**Use of Estimates –** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The significant estimates included in the financial statements are the estimates of useful lives used for depreciating property and equipment items.

**New Accounting Pronouncements –** The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2012-05, Statement of Cash Flows (Topic 230): *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*.

The new provision addresses the classification of cash receipts arising from the sale of certain donated financial assets in the statement of cash flows for not-for-profit entities. The ASU requires not-for-profit organizations to "*...classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash*."

The ASU requires a donated financial asset that is immediately converted to cash be treated the same as donated cash and thus included in operating activities in the Statement of Cash Flows. If the donor restricts the use of the donated financial asset to a long-term purpose the cash receipts should be classified as cash flows from financing activities. In any other case the cash receipts from the sale should be classified as cash flows from investing activities.

The amendments in this update are effective prospectively for financial statements issued for fiscal years, and interim periods within those years, beginning after June 15, 2013. Retrospective application to all prior periods presented upon the date of adoption is permitted. Early adoption is permitted.

**Fair Value of Financial Instruments** – **Fair Value –** ASC 820, *Fair Value Measurements and Disclosures* (formerly SFAS 157), defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market, establishes a framework for measuring fair value in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs, and ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level I - Quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level I assets include cash and cash equivalents with a fair value at December 31, 2013 1,225,491.

- Level 2 - Inputs other than quoted prices included in Level I, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 - Significant unobservable inputs that are supported by little or no market activity.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used are to maximize the use of observable inputs and minimize the use of unobservable inputs.

## NOTE 2 – PROPERTY AND EQUIPMENT

As of December 31, 2013, property and equipment consisted of the following:

| | |
|---|---|
| Furniture and fixtures | $ 4,900 |
| Less: Accumulated depreciation | (2,852) |
| Property and equipment, net | $ 2,048 |

Depreciation expense charged to operations for the year ended December 31, 2013 was $980.

As of December 31, 2013, the Organization had the following donated professional services in construction in progress (see Note 6 – Expansion for further discussion):

| Project | Commitment | Donated | Remaining |
|---|---|---|---|
| Architectural services for expansion | $ 25,000 | $ 25,000 | $ - |

## NOTE 3 – LEASE COMMITMENTS

The Organization entered into a lease agreement for office space on April 17, 2013 that commenced on May 1, 2013 through April 30, 2014. This agreement has not been renewed as of the date of this report and is continuing on a month-to-month basis with the same terms of $695 per month. The Organization paid office rent of $5,560 for the year ended December 31, 2013. The Organization also leases eight apartments which are subleased to clients served.

These leases are for 12 month periods and vary in monthly rent from $825 to $1,035. Lease expense related to patients served totaled $88,243 for the year ended December 31, 2013. Total lease expense for the year ended December 31, 2013 was $93,803. Future minimum lease payments for the various apartment non-cancelable leases for the year ended December 31, 2014 as of the date of this report are $69,080.

## NOTE 4 – CONCENTRATION OF CREDIT RISKS

By operation of federal law, beginning January 1, 2013, funds deposited in a noninterest-bearing transaction account no longer will receive unlimited deposit insurance coverage by the Federal Deposit Insurance Corporation (FDIC). Beginning January 1, 2013, all of a depositor's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount ($250,000), for each deposit insurance ownership category.

The Organization maintains its cash balances in one financial institution. These balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of December 31, 2013, the Organization had approximately $962,951 that was not covered by FDIC insurance. The Organization has not experienced any losses in such accounts and believes the risk of future loss is mitigated by monitoring the balances and the financial institutions where the cash is deposited.

## NOTE 5 – CONCENTRATIONS

The Organization holds an annual fundraising event in the fall which provided approximately forty-four percent (44%) of its operating revenues for the year ended December 31, 2013.

## NOTE 6 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 18, 2014; the date financial statements were available to be issued. No change to the financial statements for the year ended December 31, 2013 is deemed necessary as a result of this evaluation.

**Expansion –** The Organization is in the process of completing negotiations and required approval processes to enter into a long-term below market lease to accept and use approximately two acres of donated land owned by the state. The Organization intends to build a 22 unit apartment building. No agreements or leases have been entered into by the Organization at the date of this report and are awaiting for approval by the Boards of those entities associated with the transaction. The Organization has received donated professional services related to this upcoming project during the year ended December 31, 2013, as reported in Note 2.