

Halo House Foundation

Financial Statements
and Independent Auditors' Report
for the year ended December 31, 2019

Halo House Foundation

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Independent Auditors' Report

To the Board of Directors of
Halo House Foundation:

We have audited the accompanying financial statements of Halo House Foundation, which comprise the statement of financial position as of December 31, 2019 and the related statements of activities, of functional expenses, and of 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 our 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 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 financial position of Halo House Foundation as of December 31, 2019 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.

Blazek & Vetterling

August 3, 2020

Halo House Foundation

Statement of Financial Position as of December 31, 2019

ASSETS

Cash and cash equivalents (<i>Note 4</i>)	\$ 6,398,214
Other assets	100
Contributions receivable	72,240
Property and equipment, net (<i>Note 5</i>)	<u>9,704,831</u>
TOTAL ASSETS	<u>\$ 16,175,385</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and other accrued liabilities	\$ <u>12,724</u>
Net assets:	
Without donor restrictions (<i>Note 3</i>)	12,716,591
With donor restrictions – unamortized contributed use of land (<i>Note 5</i>)	<u>3,446,070</u>
Total net assets	<u>16,162,661</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,175,385</u>

See accompanying notes to financial statements.

Halo House Foundation

Statement of Activities for the year ended December 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 536,790	\$ 58,347	\$ 595,137
Special events	429,945		429,945
Direct donor benefit costs	(61,533)		(61,533)
Rental income	195,000		195,000
Interest income	74,868		74,868
Total revenue	1,175,070	58,347	1,233,417
Net assets released from restrictions:			
Completion of apartment complex	8,227,170	(8,227,170)	
Amortization of contributed use of land		152,942	(152,942)
Program support	25,000	(25,000)	
Total	9,580,182	(8,346,765)	1,233,417
EXPENSES:			
Program services	763,726		763,726
Management and general	122,759		122,759
Fundraising	38,886		38,886
Total expenses	925,371		925,371
CHANGES IN NET ASSETS	8,654,811	(8,346,765)	308,046
Net assets, beginning of year (<i>Note 2</i>)	4,061,780	11,792,835	15,854,615
Net assets, end of year	\$ 12,716,591	\$ 3,446,070	\$ 16,162,661

See accompanying notes to financial statements.

Halo House Foundation

Statement of Functional Expenses for the year ended December 31, 2019

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL EXPENSES</u>
Depreciation and amortization	\$ 326,664	\$ 10,316	\$ 6,877	\$ 343,857
Salaries and related costs	122,521	70,933	21,495	214,949
Supplies and equipment	124,453	1,902	576	126,931
Utilities	55,770	2,027	614	58,411
Insurance	33,358	328	100	33,786
Transportation	33,606			33,606
Repairs and maintenance	24,572	66	20	24,658
Rent	21,832	1,102	334	23,268
Professional fees and contract services	4,193	16,520	736	21,449
Bank and credit card fees		18,283		18,283
Moving and storage	14,501			14,501
Other	<u>2,256</u>	<u>1,282</u>	<u>8,134</u>	<u>11,672</u>
Total expenses	<u>\$ 763,726</u>	<u>\$ 122,759</u>	<u>\$ 38,886</u>	925,371
Direct donor benefit costs				<u>61,533</u>
Total				<u>\$ 986,904</u>

See accompanying notes to financial statements.

Halo House Foundation

Statement of Cash Flows for the year ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

Changes in net assets	\$ 308,046
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization	343,857
Contributions restricted for construction and furnishing of apartment complex	(33,347)
Changes in operating assets and liabilities:	
Other assets	695
Contributions receivable	(28,543)
Accounts payable and other accrued liabilities	<u>(11,775)</u>
Net cash provided by operating activities	<u>578,933</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Payments for property and equipment	<u>(2,948,378)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from contributions restricted for construction and furnishing of apartment complex	<u>1,598,180</u>
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NET CHANGE IN CASH AND CASH EQUIVALENTS (771,265)

Cash and cash equivalents, beginning of year 7,169,479

Cash and cash equivalents, end of year \$ 6,398,214

See accompanying notes to financial statements.

Halo House Foundation

Notes to Financial Statements for the year ended December 31, 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Halo House Foundation (the Foundation) is a Texas nonprofit corporation. The mission of the Foundation is to help save the lives of cancer patients battling leukemia, lymphoma or myeloma by providing them with fully furnished temporary housing at a very low cost while they are undergoing active treatment for their cancer in Texas Medical Center member institutions. The Foundation owns and operates a facility with 29 one-bedroom apartments and 4 two-bedroom apartments in the Texas Medical Center (TMC) in Houston, Texas. Each apartment is fully furnished and includes a washer/dryer, cable TV and WiFi, pots and pans, linens, and towels. A 12 hour per day/5 days a week shuttle service is provided free of charge to guests so that they may easily travel from their apartment to TMC for treatment. Other amenities include a state-of-the-art Fitness Center, Community Center, Chapel, and beautiful meditative gardens.

Federal income tax status – The Foundation is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §170(b)(1)(A)(vi).

Cash and cash equivalents include demand deposits and highly liquid investments with original maturities of three months or less.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted, if material, to estimate the present value of future cash flows. At December 31, 2019, all contributions receivable are due within one year.

Property and equipment are reported at cost if purchased or at fair value at the date of gift if donated. The Foundation capitalizes property and equipment that have a cost or fair value of \$1,000 or greater and an estimated useful life of more than one year. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from 8 to 35 years.

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

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

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 with donor restrictions. Conditional contributions are subject to one or more barriers that must be overcome

before the Foundation is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met. Funding received before conditions are met is reported as refundable advances.

Special event revenue is the total amount paid by attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Direct donor benefit costs represent the cost of goods and services provided to attendees of the special events.

Rental income is recognized at the same time the services are provided.

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

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.

NOTE 2 – RESTATEMENT OF BEGINNING NET ASSETS

The Foundation increased beginning net assets by \$3.6 million to reflect the net present value of the contributed use of land for a below-market lease that became effective in 2017.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31, 2019, comprise the following:

Financial assets:	
Cash and cash equivalents	\$ 6,398,214
Contributions receivable	<u>72,240</u>
Total financial assets	6,470,454
Less financial assets not available for general expenditure:	
Board-designated reserve funds for maintenance and future capital projects	<u>(1,725,247)</u>
Total financial assets available for general expenditure	<u>\$ 4,745,207</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers liquidation of liabilities and future expenditures related to its ongoing activities of

providing fully furnished housing for cancer patients being treated in Texas Medical Center member institutions, as well as the conduct of services undertaken to support those activities, to be general expenditures. The Board of Directors (Board) has designated a portion of its resources without donor restrictions to be used for maintenance and future capital projects. While the Board does not intend to use these financial assets for general expenditures in the next 12 months, these funds remain available to be spent at the discretion of the Board.

NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2019 consist of the following:

Demand deposits	\$ 1,012,887
U. S. Government money market mutual fund	<u>5,385,327</u>
Total cash and cash equivalents	<u>\$ 6,398,214</u>

Bank deposits exceed the federally insured limit per depositor per institution.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2019 consists of the following:

Building	35 years	\$ 4,619,091
Contributed use of land	20 years	3,817,231
Major equipment, landscape, and grounds	15 years	1,074,515
Appliances	10 years	469,786
Furnishings and office equipment	8 years	<u>286,284</u>
Total property and equipment, at cost		10,266,907
Accumulated depreciation and amortization		<u>(562,076)</u>
Property and equipment, net		<u>\$ 9,704,831</u>

In 2017, the Foundation entered into a lease for the use of land on which the apartment complex was constructed for a negligible cost per year. The initial term of the lease is 20 years with contingent options to renew for up to 30 additional years. If at any time, the Foundation ceases to use the property for providing low-cost housing primarily to cancer patients, the Foundation would be required to pay a market lease rate. The Foundation intends to continue using the property for the specified purpose for at least 20 years. The present value of the contributed use of land for the initial lease term was estimated using a risk-free interest rate of 2.58%, is reported as property, and is being amortized over 20 years.

NOTE 6 – SUBSEQUENT EVENTS

On March 11, 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and on March 13, 2020, a national emergency was declared in the United States. The extent of the impact of COVID-19 on the Foundation's operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on donors, employees, and vendors all of which are uncertain and cannot be

predicted. Therefore, while the Foundation expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

Management has evaluated subsequent events through August 3, 2020, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
