



**Incarnation House**

**Financial Statements  
December 31, 2016 and 2015**

# Incarnation House

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## **Independent Auditors' Report**

Board of Directors  
Incarnation House

We have audited the accompanying financial statements of Incarnation House (a nonprofit organization) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted accounting standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements 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 Incarnation House as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Sutton Frost Cary*

A Limited Liability Partnership

Arlington, Texas  
May 9, 2017

**Incarnation House**  
**Statements of Financial Position**  
**December 31, 2016 and 2015**

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	2016	2015
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 402,232	\$ 483,635
Pledges receivable	602	56,000
Prepaid expenses	5,875	1,084
<b>Total current assets</b>	408,709	540,719
Property and equipment, net	323,050	354,771
<b>Total assets</b>	<b>\$ 731,759</b>	<b>\$ 895,490</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 3,274	\$ 2,913
Unrestricted net assets	728,485	892,577
<b>Total liabilities and net assets</b>	<b>\$ 731,759</b>	<b>\$ 895,490</b>

See notes to financial statements.

**Incarnation House**  
**Statements of Activities**  
**Years Ended December 31, 2016 and 2015**

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	<u>2016</u>	<u>2015</u>
<b>Unrestricted net assets:</b>		
<b>Support and other income:</b>		
Contributions	\$ 249,470	\$ 743,134
In-kind contributions	98,127	256,550
Special events	-	10,904
Interest and investment income	25	4
<b>Total support and other income</b>	<u>347,622</u>	<u>1,010,592</u>
<b>Expenses:</b>		
Program services	412,505	143,808
Supporting services	50,268	5,613
Fundraising	48,941	93,713
<b>Total expenses</b>	<u>511,714</u>	<u>243,134</u>
<b>Increase (decrease) in net assets</b>	(164,092)	767,458
<b>Net assets at beginning of year</b>	<u>892,577</u>	<u>125,119</u>
<b>Net assets at end of year</b>	<u>\$ 728,485</u>	<u>\$ 892,577</u>

See notes to financial statements.

**Incarnation House**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2016**

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	Program Services	Supporting Services	Fundraising	Total
Payroll	\$ 173,127	\$ 12,464	\$ 15,468	\$ 201,059
Occupancy	37,576	170	170	37,916
Telephone	3,113	-	68	3,181
Advertising	397	-	-	397
Contract services	48,046	2,809	29,457	80,312
Continuing education	244	20	20	284
Insurance	3,547	254	254	4,055
Office	12,583	480	1,232	14,295
Supplies	12,868	-	-	12,868
In-kind	93,617	2,255	2,255	98,127
Client services	27,387	95	17	27,499
Depreciation	-	31,721	-	31,721
	<u>\$ 412,505</u>	<u>\$ 50,268</u>	<u>\$ 48,941</u>	<u>\$ 511,714</u>

See notes to financial statements.

**Incarnation House**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2015**

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	Program Services	Supporting Services	Fundraising	Total
Payroll	\$ 84,609	\$ 1,957	\$ 1,957	\$ 88,523
Occupancy	2,056	-	-	2,056
Telephone	300	-	-	300
Advertising	483	-	26	509
Contract services	18,763	1,112	73,267	93,142
Continuing education	25	-	-	25
Insurance	3,646	-	1,000	4,646
Travel	21	127	-	148
Office	3,944	865	1,143	5,952
Supplies	21,567	1,330	391	23,288
In-kind	6,550	-	-	6,550
Client services	68	-	-	68
Special events	-	-	15,707	15,707
Depreciation	1,776	222	222	2,220
	<u>\$ 143,808</u>	<u>\$ 5,613</u>	<u>\$ 93,713</u>	<u>\$ 243,134</u>

See notes to financial statements.



**Incarnation House**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

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	2016	2015
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ (164,092)	\$ 767,458
Adjustment to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	31,721	2,220
Contribution of property and equipment	-	(250,000)
Changes in assets and liabilities:		
Pledges receivable	55,398	69,000
Prepaid expenses	(4,791)	(1,084)
Accounts payable	361	3,032
Net cash provided (used) by operating activities	(81,403)	590,626
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	-	(106,991)
Net cash used by financing activities	-	(106,991)
Net increase (decrease) in cash	(81,403)	483,635
<b>Cash at beginning of year</b>	483,635	-
<b>Cash at end of year</b>	\$ 402,232	\$ 483,635
Noncash investing activities -		
In-kind donation of property and equipment	\$ -	\$ 250,000

See notes to financial statements.

# Incarnation House

## Notes to Financial Statements

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### 1. Organization

Incarnation House (Organization) is a nonprofit organization incorporated in the state of Texas. The Organization is operated exclusively for the charitable purpose of providing vulnerable youth in Dallas access to physical, educational and emotional resources necessary to live an independent and successful future. The Organization offers a safe and consistent after-school destination that feels like home where a network of adults connects students with resources and provides them with support. The Organization is primarily supported by contributions from individuals, local organizations and private grants.

### 2. Summary of Significant Accounting Policies

#### *Basis of Accounting*

The accompanying financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). Accordingly, revenues are recognized when earned and expenses are recorded as incurred.

#### *Financial Statement Presentation*

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.

*Temporarily restricted net assets* - Net assets subject to donor stipulations that will be met by actions of the Organization and/or the passage of time. At December 31, 2016 and 2015, the Organization had no temporarily restricted net assets.

*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that will never lapse thus requiring the funds to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purpose. At December 31, 2016 and 2015, the Organization had no permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Organization chooses to show restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions.

## **Incarnation House**

### **Notes to Financial Statements**

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#### ***Financial Instruments and Credit Risk Concentrations***

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash and pledges receivable. Cash is placed with high credit quality financial institutions to minimize risk. Pledges receivable are unsecured and are due from various donors. The Organization continually evaluates the collectability of pledges receivable and maintains allowances for potential losses, if considered necessary. Pledges receivable are considered to be fully collectible by management at year end.

The Organization maintains cash balances at a financial institution located in Texas. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2016 and 2015 the Organization's uninsured bank balance totaled \$0 and \$276,104, respectively. The Organization has not experienced any losses on such accounts.

During the year ended December 31, 2016, contributions from one donor accounted for 11% of revenue. During the year ended December 31, 2015, contributions from three donors accounted for 87% of revenue.

At December 31, 2015, the balance due on one pledge from a member of the board of directors accounted for 89% of pledges receivable.

#### ***Revenue Recognition***

Contributions are generally recorded only upon receipt, unless evidence of an unconditional promise to give has been received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. Conditional promises to give are not included as support until such time as the conditions are substantially met. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

Donated leasehold improvements, food and rent are reflected as contributions at their estimated fair value at date of receipt. Contributions of services are recorded at estimated fair value if the services received create or enhance nonfinancial assets or require specialized skills and would typically need to be purchased if not provided by donation. Numerous individuals donate significant amounts of time to the Organization. No donated services were utilized that met the criteria to be recorded as revenue in the Organization's financial statements.

The Organization received donated leasehold improvements with an estimated value of \$250,000 during the year ended December 31, 2015.

# Incarnation House

## Notes to Financial Statements

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### ***Property and Equipment***

Property and equipment are recorded at cost or, if donated, at estimated fair market value at the date of the gift. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,500; the fair value of donated fixed assets is similarly capitalized. Depreciation is computed using the straight-line method over estimated useful lives of the assets.

Leasehold improvements are amortized over the remaining term of the lease or the useful life of the improvement, whichever is shorter.

### ***Functional Allocation of Expenses***

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### ***Income Taxes***

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC) and has not been classified as a private foundation as defined in the IRC. Income generated from activities unrelated to the Organization's exempt purposes is subject to tax under IRC Section 511. The Organization had no unrelated business income for the years ended December 31, 2016 and 2015. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Organization's tax returns and recognition of a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2016 and 2015, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

### ***Estimates and Assumptions***

The preparation of financial statements in conformity with GAAP 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 and expenses during the reporting period. Actual results could differ from those estimated.

**Incarnation House**  
**Notes to Financial Statements**

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**3. Property and Equipment**

Property and equipment consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 347,682	\$ 347,682
Furniture and fixtures	<u>9,309</u>	<u>9,309</u>
	356,991	356,991
Accumulated depreciation	<u>(33,941)</u>	<u>(2,220)</u>
	<u>\$ 323,050</u>	<u>\$ 354,771</u>

**4. In-Kind Contributions**

The Organization received the following in-kind contributions during the years ended December 31:

	<u>2016</u>	<u>2015</u>
Food	\$ 22,275	\$ -
Rent	75,852	-
Leasehold improvements	-	250,000
Furniture	<u>-</u>	<u>6,550</u>
	<u>\$ 98,127</u>	<u>\$ 256,550</u>

**5. Leases**

In January 2016, the Organization entered into a non-cancelable operating lease agreement expiring January 1, 2021. Rent expense incurred under this lease totaled \$17,250 for the year ended December 31, 2016. The following is a schedule of future required minimum lease payments under the lease agreement for the years ending December 31:

2017	\$ 18,000
2018	18,000
2019	18,000
2020	18,000

**Incarnation House**  
**Notes to Financial Statements**

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**6. Service Agreements**

The Organization entered into a service agreement on June 30, 2016 with a company to host and maintain its website, as well as manage its social media presence. The Organization paid \$11,600 for the year ended December 31, 2016 under this agreement. Future minimum payments under this service agreement for the year ending December 31, 2017 total \$11,400.

**7. Related Party Transactions**

During 2015, the Organization received contributions from board members and employees totaling approximately \$625,000. Additionally, at December 31, 2015 pledges receivable balances totaling \$50,000 are due from board members and employees.

**8. Subsequent Events**

Management has evaluated subsequent events after the statement of financial position date of December 31, 2016 through May 9, 2017, the date which the financial statements were available to be issued, and concluded that no additional disclosures are required.