Incarnation House

Financial Statements
December 31, 2018 and 2017

Sutton Frost Cary LLP
Certified Public Accountants

Incarnation House
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Certified Public Accountants

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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, 2018 and 2017, 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, 2018 and 2017, 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 31, 2019

Incarnation House
Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash	$ 131,587	$ 226,420
Prepaid expenses	7,067	5,790
Total current assets	138,654	232,210
Property and equipment, net	258,529	290,789
Total assets	$ 397,183	$ 522,999
Liabilities and Net Assets		
Current liabilities-		
Accounts payable	$ 7,601	$ 11,368
Net assets without donor restrictions	389,582	511,631
Total liabilities and net assets	$ 397,183	$ 522,999

See notes to financial statements.

Incarnation House
Statements of Activities
Years Ended December 31, 2018 and 2017

	2018	2017
Net assets without donor restrictions:		
Support and other income:		
Contributions	$ 307,940	$ 208,467
In-kind contributions	113,685	121,648
Interest and investment income	270	156
Other Income	5,040	-
Total support and other income	426,935	330,271
Expenses:		
Program services	487,600	484,309
Supporting services	24,118	23,787
Fundraising	37,266	39,029
Total expenses	548,984	547,125
Change in net assets	(122,049)	(216,854)
Net assets at beginning of year	511,631	728,485
Net assets at end of year	$ 389,582	$ 511,631

See notes to financial statements.

Incarnation House
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services	Supporting Services	Fundraising	Total
Payroll	$ 212,471	$ 13,164	$ 12,862	$ 238,497
Occupancy	41,898	-	-	41,898
Telephone	2,001	-	-	2,001
Advertising	659	3	2	664
Contract services	45,355	3,298	16,498	65,151
Continuing education	10	-	720	730
Insurance	6,099	15	265	6,379
Travel	1,809	10	9	1,828
Office	5,956	1,082	2,305	9,343
Supplies	2,540	89	-	2,629
In-kind	109,193	2,246	2,246	113,685
Client services	32,028	52	52	32,132
Depreciation	27,581	4,159	520	32,260
Events	-	-	1,787	1,787
	$ 487,600	$ 24,118	$ 37,266	$ 548,984

See notes to financial statements.

Incarnation House
Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services	Supporting Services	Fundraising	Total
Payroll	$ 192,385	$ 12,305	$ 12,881	$ 217,571
Occupancy	39,856	-	-	39,856
Telephone	2,525	75	75	2,675
Advertising	249	-	-	249
Contract services	48,616	3,704	16,704	69,024
Continuing education	661	-	-	661
Insurance	8,533	995	995	10,523
Travel	486	2	2	490
Office	4,990	671	2,877	8,538
Supplies	1,684	-	-	1,684
In-kind	117,142	2,253	2,253	121,648
Client services	41,805	70	70	41,945
Depreciation	25,377	3,712	3,172	32,261
	$ 484,309	$ 23,787	$ 39,029	$ 547,125

Incarnation House
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (122,049)	$ (216,854)
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation	32,260	32,261
Changes in assets and liabilities:		
Pledges receivable	-	602
Prepaid expenses	(1,277)	85
Accounts payable	(3,767)	8,094
Net cash used by operating activities	(94,833)	(175,812)
Net decrease in cash	(94,833)	(175,812)
Cash at beginning of year	226,420	402,232
Cash at end of year	$ 131,587	$ 226,420

See notes to financial statements.

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:

> *Net assets without donor restrictions* - Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.
>
> *Net assets with donor restrictions* - Net assets subject to donor stipulations that will be met by actions of the Organization and/or the passage of time. As of December 31, 2018 and 2017, no such net asset restrictions existed.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor imposed stipulations or a board of directors approved spending policy. As of December 31, 2018 and 2017, no such net asset restrictions existed.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (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 contributions without donor restrictions.

Financial Instruments and Credit Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash. Cash is placed with high credit quality financial institutions to minimize risk.

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, 2018 the Organization did not have any uninsured bank balances. The Organization has not experienced any losses on such accounts.

During the year ended December 31, 2018, no donor concentrations existed. During the year ended December 31, 2017, contributions from three donors accounted for 15% of total revenue.

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 gift cards, 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.

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. The expenses that are allocated are compensation and benefits, which are allocated on the basis of estimates of time and effort; occupancy costs and depreciation, which are allocated on a weighted average square footage basis; and supplies, which are allocated based on average employee headcount.

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, 2018 and 2017. 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, 2018 and 2017, 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.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB's Accounting Standards Codification.

The Organization considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Organization's financial position and changes in net assets.

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The entity should recognize revenue when (or as) the entity satisfies a performance obligation. Not-for-profit entities must consider whether certain arrangements are fully or partially subject to Topic 606. Examples include, but are not limited to memberships, sponsorships, grants and contracts. Further, judgment is required to bifurcate transactions between contribution and exchange components. The effective date of ASU 2014-09 is for annual periods beginning after December 15, 2018 for the majority of not-for-profit organizations.

In 2018, the FASB issued ASU 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Made* to address difficulty and diversity in practice among not-for-profit entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) subject to Topic 958, *Not-for-Profit Entities* or as exchanges (reciprocal transactions) subject to Topic 606 and (2) determining between conditional and unconditional contributions. This ASU applies to all entities that receive or make contributions. The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within Topic 958 is not a factor for determining whether an agreement is within the scope of that guidance. The standard is effective for annual periods beginning after December 15, 2018 for the majority of not-for-profit entities. The changes in this standard should generally be applied on a retrospective basis in the year that it is first applied.

In 2016, the FASB issued its leasing standard in ASU 2016-02, *Leases* for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use assets and related lease liabilities on the statement of financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the statement of activities will depend on a lease's classification. For not-for-profit organizations, the standard takes effect for fiscal years beginning after December 15, 2019.

The Organization is currently assessing the impact that adopting this new guidance will have on the financial statements.

Accounting Pronouncements Adopted

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU amends the previous reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) requiring that all nonprofits disclose a summary of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources. The Organization has adopted this ASU as of and for the year ended December 31, 2018 with retrospective application for the 2017 financial statements. The Organization opted to not disclose liquidity and availability information for 2017 as permitted under the ASU in the year of adoption. The adoption of this ASU had no effect on net assets or the change in net assets presented for the years ended December 31, 2018 and 2017.

3. Property and Equipment

Property and equipment consist of the following at December 31:

	2018	2017
Leasehold improvements	$ 347,682	$ 347,682
Furniture and fixtures	9,309	9,309
	356,991	356,991
Accumulated depreciation	(98,462)	(66,202)
	$ 258,529	$ 290,789

4. In-Kind Contributions

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

	2018	2017
Food	$ 32,833	$ 27,796
Rent	75,852	75,852
Advertising	-	12,000
Gift cards	5,000	6,000
	$ 113,685	$ 121,648

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 $18,000 for the years ended December 31, 2018 and 2017. The following is a schedule of future required minimum lease payments under the lease agreement for the years ending December 31:

2019	$	18,000
2020		18,000

6. Liquidity and Availability of Resources

The Organization has $131,587 of financial assets consisting of cash that are available to meet cash needs for general expenditures within one year at December 31, 2018. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position date. The Organization receives significant contributions each year from donors, which are available to meet annual cash needs for general expenditures. The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. To achieve this, the Organization forecasts its future cash flows and monitors its liquidity monthly and quarterly. During the year ended December 31, 2018, the level of liquidity was managed within the Organization’s expectations.

7. Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued and concluded that no additional disclosures are required.