



Incarnation House

**Financial Statements
December 31, 2021 and 2020**

Incarnation House

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Independent Auditors' Report

To the Board of Directors of
Incarnation House

Opinion

We have audited the accompanying financial statements of Incarnation House (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Incarnation House and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Incarnation House's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Incarnation House's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Incarnation House's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

A handwritten signature in cursive script that reads "Sutton Frost Lang".

A Limited Liability Partnership

Arlington, Texas

July 5, 2022

Incarnation House
Statements of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash	\$ 366,837	\$ 369,944
Prepaid expenses	7,649	6,955
Total current assets	374,486	376,899
Property and equipment, net	176,117	195,686
Total assets	\$ 550,603	\$ 572,585
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 17,629	\$ 8,828
Net assets without donor restrictions	532,974	563,757
Total liabilities and net assets	\$ 550,603	\$ 572,585

See notes to financial statements.

Incarnation House
Statements of Activities
Years Ended December 31, 2021 and 2020

	2021	2020
Net assets without donor restrictions:		
Support and other income:		
Contributions	\$ 309,891	\$ 392,817
Government grant	-	39,920
In-kind contributions	101,385	122,960
Event income	129,317	88,011
Other income	-	36,906
Total support and other income	540,593	680,614
Expenses:		
Program services	373,402	385,905
Supporting services	78,003	33,242
Fundraising	119,971	98,615
Total expenses	571,376	517,762
Change in net assets	(30,783)	162,852
Net assets at beginning of year	563,757	400,905
Net assets at end of year	\$ 532,974	\$ 563,757

See notes to financial statements.

Incarnation House
Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services	Supporting Services	Fundraising	Total
Payroll	\$ 136,417	\$ 39,509	\$ 64,052	\$ 239,978
Occupancy	25,990	446	948	27,384
Telephone	850	-	-	850
Advertising	50	-	6,233	6,283
Contract services	34,697	1,252	2,145	38,094
Continuing education	-	208	-	208
Insurance	5,042	848	1,273	7,163
Travel	230	-	-	230
Office	3,550	4,005	5,069	12,624
Supplies	18,335	-	-	18,335
In-kind	69,956	12,166	19,263	101,385
Client services	78,285	-	-	78,285
Depreciation	-	19,569	-	19,569
Events	-	-	20,988	20,988
	<u>\$ 373,402</u>	<u>\$ 78,003</u>	<u>\$ 119,971</u>	<u>\$ 571,376</u>

See notes to financial statements.

Incarnation House
Statement of Functional Expenses
Year Ended December 31, 2020

	Program Services	Supporting Services	Fundraising	Total
Payroll	\$ 163,528	\$ 18,944	\$ 36,213	\$ 218,685
Occupancy	12,593	-	-	12,593
Telephone	1,050	-	-	1,050
Advertising	752	-	7,100	7,852
Contract services	20,923	1,859	11,179	33,961
Insurance	4,561	615	977	6,153
Travel	785	-	-	785
Office	492	3,327	5,425	9,244
Supplies	3,854	134	-	3,988
In-kind	112,827	3,243	6,890	122,960
Client services	50,386	-	-	50,386
Depreciation	14,154	5,120	10,842	30,116
Events	-	-	19,989	19,989
	<u>\$ 385,905</u>	<u>\$ 33,242</u>	<u>\$ 98,615</u>	<u>\$ 517,762</u>

See notes to financial statements.

Incarnation House
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ (30,783)	\$ 162,852
Adjustment to reconcile change in net assets to net cash used (provided) by operating activities:		
Depreciation	19,569	30,116
Changes in assets and liabilities:		
Prepaid expenses	(694)	(219)
Accounts payable	8,801	(4,962)
	(3,107)	187,787
Net cash used (provided) by operating activities	(3,107)	187,787
Net change in cash	(3,107)	187,787
Cash at beginning of year	369,944	182,157
Cash at end of year	\$ 366,837	\$ 369,944

See notes to financial statements.

Incarnation House

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 accounting principles generally accepted in the United States of America (GAAP).

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, 2021 and 2020, 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, 2021 and 2020, 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

Incarnation House

Notes to Financial Statements

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, 2021 the Organization's uninsured balance totaled \$37,517. The Organization has not experienced any losses on such accounts.

Revenue Recognition

The Organization recognizes contributions when cash, securities, other assets or an unconditional promise to give is 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. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Special event revenue is recognized at the time of the event.

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.

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.

Incarnation House

Notes to Financial Statements

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, 2021 and 2020. 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, 2021 and 2020, 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.

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Notes to Financial Statements

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. The standard takes effect for fiscal years beginning after December 15, 2021.

In 2020, FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The Organization will be required to present contributed nonfinancial assets as separate line items in the statement of activities, apart from contributions of cash or other financial assets, and additional quantitative and qualitative disclosures will be required. The standard takes effect for annual reporting periods beginning after June 15, 2021.

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

3. Property and Equipment

Property and equipment consist of the following at December 31:

	2021	2020
Leasehold improvements	\$ 347,683	\$ 347,683
Furniture and fixtures	9,309	9,309
	356,992	356,992
Accumulated depreciation	(180,875)	(161,306)
	\$ 176,117	\$ 195,686

4. In-Kind Contributions

The Organization recognized the following in-kind contributions in the accompanying financial statements during the years ended December 31:

	2021	2020
Food	\$ 20,025	\$ 29,125
Rent	78,835	93,835
Legal	2,525	-
	\$ 101,385	\$ 122,960

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Notes to Financial Statements

5. Leases

In January 2016, the Organization entered into a non-cancelable operating lease agreement expiring January 1, 2026. Rent expense incurred under this lease totaled \$18,000 and \$18,000 for the years ended December 31, 2021 and 2020, respectively. Due to the COVID-19 pandemic, the Organization received free rent for the year ended December 31, 2020 and for part of the year ended December 31, 2021. This is reflected in in-kind contributions on the statements of activities.

The following is a schedule of future required minimum lease payments under the lease agreement for years ending December 31:

2022	\$	18,000
2023		18,000
2024		18,000
2025		18,000

6. Liquidity and Availability of Resources

The Organization has \$366,837 and \$369,944 of financial assets consisting of cash that are available to meet cash needs for general expenditures within one year at December 31, 2021 and 2020, respectively.

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 years ended December 31, 2021 and 2020, the level of liquidity was managed within the Organization's expectations.

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7. Paycheck Protection Program Loan

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act was signed into law. In May 2020, the Organization received a forgivable loan in the amount of \$39,920 pursuant to the Paycheck Protection Program (PPP). The Organization used all of the proceeds to make eligible payments within the 24 week covered period. The Organization elected to account for the PPP forgivable loan as a conditional grant in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 958. On April 27, 2021, the PPP loan was forgiven in full. Accordingly, the Organization has recognized \$39,920 as government grant revenue in the accompanying statement of activities for the year ended December 31, 2020.

8. 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.