

HOUSTON'S CHARITY FOR CHILDREN, INC.

AKA HOUSTON CHILDREN'S CHARITY

FINANCIAL STATEMENTS

For the Years Ended September 30, 2012 and 2011

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HOUSTON CHILDREN'S CHARITY  
FINANCIAL STATEMENTS  
For the Years Ended September 30, 2012 and 2011

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## Independent Auditor's Report

To the Board of Directors  
Houston Children's Charity  
Houston, Texas

I have audited the accompanying statements of financial position of Houston Children's Charity as of September 30, 2012 and 2011, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Charity's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houston Children's Charity as of September 30, 2012 and 2011, and its changes in net assets, functional expenses, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Ken Skrabanek, CPA  
Crosby, Texas  
October 30, 2012

HOUSTON CHILDREN'S CHARITY  
 STATEMENTS OF FINANCIAL POSITION  
 September 30, 2012 and 2011

	2012	2011
<b>ASSETS</b>		
Current Assets		
Cash and cash investments	\$ 632,482	\$ 471,259
Accounts receivable	312,000	92,906
Prepaid expenses	5,134	4,606
<b>TOTAL CURRENT ASSETS</b>	<b>949,616</b>	<b>568,771</b>
Fixed Assets, at cost		
Property and equipment	33,387	33,387
Less-accumulated depreciation	31,374	30,702
<b>NET FIXED ASSETS</b>	<b>2,013</b>	<b>2,685</b>
<b>TOTAL ASSETS</b>	<b>\$ 951,629</b>	<b>\$ 571,456</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 3,607	\$ 3,601
Payroll taxes payable	-	134
<b>TOTAL CURRENT LIABILITIES</b>	<b>3,607</b>	<b>3,735</b>
Net Assets		
Unrestricted	948,022	567,721
<b>TOTAL NET ASSETS</b>	<b>948,022</b>	<b>567,721</b>
<b>TOTAL LIABILITIES AND     NET ASSETS</b>	<b>\$ 951,629</b>	<b>\$ 571,456</b>

The accompanying notes are an integral  
 part of the financial statements.

**HOUSTON CHILDREN'S CHARITY**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
For the Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>REVENUES</b>		
Event revenues	\$ 1,671,842	\$ 1,058,553
Net assets released from restrictions	-	39,000
Other cash and in-kind support	<u>1,532,541</u>	<u>1,196,027</u>
<b>TOTAL UNRESTRICTED REVENUES</b>	<b><u>3,204,383</u></b>	<b><u>2,293,580</u></b>
<b>EXPENSES</b>		
Program services	1,967,639	1,578,966
Management and general	283,703	249,175
Fund raising	<u>572,740</u>	<u>563,493</u>
<b>TOTAL EXPENSES</b>	<b><u>2,824,082</u></b>	<b><u>2,391,634</u></b>
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	<b><u>380,301</u></b>	<b><u>(98,054)</u></b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Pledges, net of discounts	<u>-</u>	<u>(39,000)</u>
<b>INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>-</u></b>	<b><u>(39,000)</u></b>
<b>CHANGE IN NET ASSETS</b>	<b>380,301</b>	<b>(137,054)</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b><u>567,721</u></b>	<b><u>704,775</u></b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ <u>948,022</u></b>	<b>\$ <u>567,721</u></b>

The accompanying notes are an integral part of the financial statements.

**HOUSTON CHILDREN'S CHARITY**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
For the Years Ended September 30, 2012 and 2011

Year Ended September 30, 2012-

	<u>Program Services</u>	<u>Management &amp; Administration</u>	<u>Fund Raising</u>
Salaries and benefits	\$ 133,600	\$ 133,604	\$ 133,636
Event expenses	-	-	417,845
Direct benefits to children	1,819,208	-	-
Officing	13,563	28,044	18,949
Marketing and promotion	1,079	17,927	2,158
Insurance and other	<u>189</u>	<u>104,128</u>	<u>152</u>
 Total	 \$ <u>1,967,639</u>	 \$ <u>283,703</u>	 \$ <u>572,740</u>

Year Ended September 30, 2011-

Salaries and benefits	\$ 119,753	\$ 119,788	\$ 119,753
Event expenses	-	-	415,867
Direct benefits to children	1,438,871	-	-
Officing	18,212	45,246	24,726
Marketing and promotion	1,017	3,017	2,035
Insurance and other	<u>1,113</u>	<u>81,124</u>	<u>1,112</u>
 Total	 \$ <u>1,578,966</u>	 \$ <u>249,175</u>	 \$ <u>563,493</u>

The accompanying notes are an integral  
part of the financial statements.

HOUSTON CHILDREN'S CHARITY  
STATEMENTS OF CASH FLOWS  
For the Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 380,301	\$ (137,054)
Adjustments to derive net cash provided by operating activities:		
Provision for bad debts	58,500	-
Depreciation expense	672	671
Discounts on pledges receivable	-	(1,000)
(Increase) decrease in assets:		
Accounts receivable	(277,594)	124,099
Pledges receivable	-	40,000
Prepaid expenses	(528)	(4,606)
Increase (decrease) in liabilities:		
Accounts payable	6	(12,991)
Payroll taxes payable	(134)	(13,401)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<u>161,223</u>	<u>(4,282)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	<u>-</u>	<u>(3,356)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	161,223	(7,638)
<b>CASH AND CASH INVESTMENTS, BEGINNING OF YEAR</b>	<u>471,259</u>	<u>478,897</u>
<b>CASH AND CASH INVESTMENTS, END OF YEAR</b>	\$ <u>632,482</u>	\$ <u>471,259</u>

The accompanying notes are an integral part of the financial statements.

HOUSTON CHILDREN'S CHARITY  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2012 and 2011

Note 1 - Nature of Activities

Houston Children's Charity (the "Charity") is a non-profit corporation that supports causes related to children. The Charity generally supports its activities through contributions from the public, either directly or through benefits and events sponsored by the Charity. Activities of the Charity are subject to oversight by a Board of Directors. Effective January 1, 2010 the Charity changed its fiscal year end to September 30.

Note 2 - Summary of Significant Accounting Policies

This summary of significant accounting policies of the Charity is presented to assist in understanding the Charity's financial statements. The financial statements and notes are the representation of the Charity's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The Charity prepares its financial statements in accordance with SFAS No. 116 entitled "Accounting for Contributions Received and Contributions Made", and SFAS No. 117 entitled "Financial Statements of Not-for Profit Organizations." Generally, these statements require that organizations such as the Charity report contributions received and net assets of the Charity according to their intended use, including unrestricted use, temporarily restricted use, or permanent restrictions.

Consistent with the provisions of SFAS No. 117, the Charity reports gifts and pledges of cash and other assets as restricted support if they are received with donor other grantor restrictions that limit the use of those assets. Further, pledges payable in the future are considered restricted support. When the applicable restriction expires (the time restriction ends or the purpose restriction is fulfilled), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the financial statements as net assets released from restrictions.



HOUSTON CHILDREN'S CHARITY  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2012 and 2011

Income Taxes

The Charity is a not-for profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Property and Equipment

Property and equipment consists of furniture, fixtures, and equipment. All assets are stated at cost. Depreciation is computed over lives of three to seven years.

Maintenance and repairs are charged to expense as incurred. Expenditures for major renewals and betterments are capitalized and depreciated. When property and equipment is retired, the asset cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in operations.

Cash Flow Disclosures

For purposes of the statement of cash flows, the Charity considers investments with an original maturity of three months or less to be cash equivalents. For the years ended September 30, 2012 and 2011 the Charity did not incur any interest or income taxes.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - In-Kind Contributions

The Charity receives two major types of in-kind contributions: (1) goods for use by program beneficiaries or by the Charity itself (collectively \$1,410,125 and \$1,214,226 and for the years ended September 30, 2012 and 2011); and (2) assets to be auctioned by the Charity at its fund raising events. Items resold at auction at the Charity's events are reflected in the financial statements at the amount realized from sale at the auctions. The annual gala is held in October of each year. Contributions reflected in item (1) are valued at estimated fair market values, which were determined by the donors or by estimates by the staff of the Charity.

HOUSTON CHILDREN'S CHARITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 AND 2011

Note 4 - Fair Value of Financial Instruments

The Charity's financial instruments consist of cash and cash equivalents, accounts and pledges receivable, and accounts payable and accrued expenses. The recorded values of these financial instruments approximate their fair values based on their short-term nature.

Note 5 - Concentration of Credit Risk

The Charity maintains cash accounts, which, at times may exceed federally insured limits. The Charity has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management of the Charity believes that it is not exposed to any significant credit risk on its cash accounts.

Note 6 - Commitments and Contingencies

The Charity leases its corporate office space. For accounting purposes, this lease is considered to be an operating lease. Total expenditures for rent for corporate office space amounted to \$37,392 and \$38,939 for the years ended September 30, 2012 and 2011. Minimum rentals under this lease agreement are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2013	\$ 37,280
2014	37,280
2015	37,280
2016	37,280
2017	3,107

HOUSTON CHILDREN'S CHARITY  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2012 and 2011

Note 7 - Date of Management's Review

Subsequent events were evaluated through October 30, 2012, which is the date the financial statements were available to be issued.