



# KEN SKRABANEK, CPA

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November 16, 2020

Board of Directors  
Houston Children's Charity  
Houston, Texas

Board of Directors:

I have audited the financial statements of Houston Children's Charity (the "Charity") for the year ended September 30, 2020, and have issued my report thereon dated November 16, 2020. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in various communications with you, including my engagement letters dated October 19, 2020. Professional standards also require that I communicate to you the following information related to my audit.

## Significant Audit Findings

### Qualitative Aspects of Accounting Practices--

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Charity are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal 2020. I noted no transactions entered into by the Charity during this year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the

financial statements and because of the possibility that future events affecting them may differ significantly from those expected. I did not note any such sensitive estimates during the course of my work.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure in Footnote 5 regarding the concentration of credit risks attributable to the Charity.

The financial statement disclosures are neutral, consistent, and clear.

#### Difficulties Encountered in Performing the Audit--

I did not encounter any major difficulties in performing the audit.

#### Corrected and Uncorrected Misstatements--

Professional standards require me to accumulate all misstatements identified during the audit, other than those that are clearly trivial and communicate them to the appropriate level of management. Adjustments were made primarily to adjust the balances in certain accounts. All such adjustments will be communicated to management.

#### Disagreements with Management--

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether resolved or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

**Management Representations-**

I have requested certain representations from management that are included in the management representation letter dated November 16, 2020.

**Management Consultation with Other Independent Accountants-**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Charity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

**Other Audit Findings or Issues-**

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Charity's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

This report is intended solely for the information and use of the management and Board of Directors of the Charity and is not intended to be and should not be used by anyone other than these specified parties.

*Ken Skrabanek, CPA*

Ken Skrabanek, CPA

**HOUSTON'S CHARITY FOR CHILDREN, INC.**

**AKA HOUSTON CHILDREN'S CHARITY**

**FINANCIAL STATEMENTS**

**For the Years Ended September 30, 2020 and 2019**

**Ken Skrabanek, CPA  
P.O. Box 1246  
Crosby, Texas 77532**

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**HOUSTON CHILDREN'S CHARITY**  
**FINANCIAL STATEMENTS**  
For the Years Ended September 30, 2020 and 2019

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## Independent Auditor's Report

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

### Report on the Financial Statements

I have audited the accompanying statements of Houston Children's Charity (a nonprofit organization), which comprise the statements of financial position as of September 30, 2020 and 2019, and the related statements of activities and changes in net assets, 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 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.

### Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. 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 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 misstatement of the financial statements, whether



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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, I express no such opinion. An audit 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## 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, 2020 and 2019, 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  
November 16, 2020

**HOUSTON CHILDREN'S CHARITY**  
**STATEMENTS OF FINANCIAL POSITION**  
September 30, 2020 and 2019

	2020	2019
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash investments	\$ 460,556	\$ 387,904
Certificates of deposit	510,941	1,014,490
Accounts receivable, net of allowance for doubtful accounts of \$41,487 and \$20,837	251,718	22,856
Prepaid expenses	16,399	6,396
<b>TOTAL CURRENT ASSETS</b>	<b>1,239,614</b>	<b>1,431,646</b>
<b>Fixed Assets, at cost</b>		
Property and equipment	41,158	34,892
Less-accumulated depreciation	34,941	33,387
<b>NET FIXED ASSETS</b>	<b>6,217</b>	<b>1,505</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,245,831</b>	<b>\$ 1,433,151</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable/accrued expenses	\$ 100,625	\$ 14,088
Payroll taxes payable	1,668	-
Small Business Administration loan	54,900	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>157,193</b>	<b>14,088</b>
<b>Net Assets</b>		
Without donor restrictions	1,088,638	1,419,063
<b>TOTAL NET ASSETS</b>	<b>1,088,638</b>	<b>1,419,063</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,245,831</b>	<b>\$ 1,433,151</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<b>REVENUES</b>		
Event revenues	\$ -	\$ 1,883,478
Other cash and in-kind support	<u>3,719,210</u>	<u>2,981,644</u>
<b>TOTAL UNRESTRICTED REVENUES</b>	<u>3,719,210</u>	<u>4,865,122</u>
<b>EXPENSES</b>		
Program services	3,389,935	3,959,267
Management and general	371,220	375,955
Fund raising	<u>288,480</u>	<u>796,663</u>
<b>TOTAL EXPENSES</b>	<u>4,049,635</u>	<u>5,131,885</u>
<b>INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<u>(330,425)</u>	<u>(266,763)</u>
<b>CHANGE IN NET ASSETS</b>	(330,425)	(266,763)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>1,419,063</u>	<u>1,685,826</u>
<b>NET ASSETS AT END OF YEAR</b>	\$ <u><u>1,088,638</u></u>	\$ <u><u>1,419,063</u></u>

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, 2020 and 2019

Year Ended September 30, 2020-

	<u>Program Services</u>	<u>Management &amp; Administration</u>	<u>Fund Raising</u>
Salaries and benefits	\$ 206,533	\$ 206,595	\$ 206,533
Event expenses	-	-	-
Direct benefits to children	3,151,695	-	-
Officing	14,634	57,195	26,035
Marketing and promotion	4,474	26,110	4,968
Insurance and other	<u>12,599</u>	<u>81,320</u>	<u>50,944</u>
Total	\$ <u>3,389,935</u>	\$ <u>371,220</u>	\$ <u>88,480</u>

Year Ended September 30, 2019-

	<u>Program Services</u>	<u>Management &amp; Administration</u>	<u>Fund Raising</u>
Salaries and benefits	\$ 204,902	\$ 204,963	\$ 205,652
Event expenses	-	-	548,830
Direct benefits to children	3,722,329	-	-
Officing	21,215	55,468	28,063
Marketing and promotion	5,404	16,989	6,618
Insurance and other	<u>5,417</u>	<u>98,535</u>	<u>7,500</u>
Total	\$ <u>3,959,267</u>	\$ <u>375,955</u>	\$ <u>796,663</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, 2020 and 2019

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ (330,425)	\$ (266,763)
Adjustments to derive net cash provided by operating activities:		
Provision for doubtful accounts	20,650	20,837
Depreciation expense	1,554	-
(Increase) decrease in assets:		
Certificates of deposit	(2,091)	(14,490)
Accounts receivable	(249,512)	101,232
Prepaid expenses	(10,003)	(6,396)
Increase (decrease) in liabilities:		
Accounts payable/accrued expenses	86,537	(30,575)
Payroll taxes payable	1,668	(11,685)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>(481,622)</b>	<b>(207,840)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	-	(1,000,000)
Proceeds from certificate of deposit	505,640	-
Purchase of equipment	(6,266)	(1,505)
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>499,374</b>	<b>(1,001,505)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from SBA loan	54,900	-
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>72,652</b>	<b>(1,209,345)</b>
<b>CASH AND CASH INVESTMENTS, BEGINNING OF YEAR</b>	<b>387,904</b>	<b>1,597,249</b>
<b>CASH AND CASH INVESTMENTS, END OF YEAR</b>	<b>\$ 460,556</b>	<b>\$ 387,904</b>

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

**HOUSTON CHILDREN'S CHARITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2020 and 2019**

**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 FASB ASC Topic 958 (formerly SFAS. No. 117). Generally, this requires that organizations such as the Charity report contributions received and net assets of the Charity according to their intended use, including with donor restrictions, or without donor restrictions.

Consistent with the provisions of Topic 958, the Charity reports gifts and pledges of cash and other assets as restricted support if they are received with donor restrictions that limit the use of those assets. When the applicable restriction expires (the time restriction ends or the purpose restriction is fulfilled), those net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the financial statements as net assets released from restrictions.

At September 30, 2020 and 2019, all net assets of the Charity were considered to be without donor restrictions.

**HOUSTON CHILDREN'S CHARITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2020 and 2019**

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. At September 30, 2020, federal income tax returns of the Charity for fiscal years ending September 30, 2019, 2018, and 2017, remained subject to examination by the Internal Revenue Service.

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. For the years ended September 30, 2020 and 2019, depreciation expense amounted to \$1,554 and \$0.

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, 2020 and 2019 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 \$1,688,913 and \$1,914,182 for the years ended September 30, 2020 and 2019); 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 generally held

**HOUSTON CHILDREN'S CHARITY  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 AND 2019**

**Note 3 (continued)**

in March of each year. Due to pandemic concerns, the gala was not held in the year ended September 30, 2020. 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

**Note 4 - Fair Value of Financial Instruments**

The Charity's financial instruments consist of cash and cash equivalents, certificates of deposit, accounts 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**

At September 30, 2020, the Charity maintained all of its cash accounts and certificates of deposit at one bank. The total of all cash accounts and certificates of deposit amounted to \$971,497. Such amount exceeded the FDIC insured limit of \$250,000.

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, and also leases warehouse space in which donated items are held pending distribution to its clients. For accounting purposes, these leases are considered to be operating leases. Total expenditures for rent for corporate and warehouse space amounted to \$96,817 and 85,000 for the years ended September 30, 2020 and 2019. Minimum rentals under these lease agreements are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2021	\$ 71,489
2022	73,849
2023	53,139
2024	21,696
2025	22,500

**HOUSTON CHILDREN'S CHARITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2020 AND 2019**

**Note 6 (continued)**

The Charity and a former employee have been named as defendants in an action brought by a client of the Charity. The client alleges she was injured due to negligence by the former employee when she was given a piece of furniture by the Charity. She claims the furniture was not adequately secured in her vehicle, and that the furniture moved and injured her. She is claiming damages for medical care, among other things. The litigation is being handled by the Charity's insurance carriers attorneys. In the opinion of the Charity the damages awarded, if any, will be covered by the Charity's insurance policy.

**Note 7 - Date of Management's Review**

Subsequent events were evaluated through November 16, 2020, which is the date the financial statements were available to be issued.

**Note 8 - Small Business Administration Loan**

The Charity applied for and received a loan from the Small Business Administration under the CARES Act. If certain conditions are met, the loan will be forgiven. Otherwise the loan will be repayable with interest at the rate of 1%. The Charity believes it has met all conditions for the loan to be forgiven.

**Note 9 - Liquidity and Availability of Financial Assets**

At September 30, 2020, the Charity's financial assets amounted to \$1,223,215. All of the Charity's financial assets were available for general use, with no contractual or donor-imposed restrictions.