

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

Financial Statements

For the Year Ended  
September 30, 2022 and 2021

**HOUSTON CHILDREN'S CHARITY**  
**Financial Statements**  
For the Year Ended September 30, 2022 and 2021

**TABLE OF CONTENTS**

|                                       |    |
|---------------------------------------|----|
| Independent Auditors' Report.....     | 3  |
| Statement of Financial Position.....  | 5  |
| Statement of Activities .....         | 6  |
| Statement of Functional Expenses..... | 8  |
| Statement of Cash Flows.....          | 10 |
| Notes to Financial Statements .....   | 11 |

## *Independent Auditor's Report*

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

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Houston Children's Charity (the "Charity"), which comprise the statements of financial position as of September 30, 2022 and 2021, 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 accompanying financial statements present fairly, in all material respects, the financial position of Houston Children's Charity as of September 31, 2022 and 2021, 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.

#### ***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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Charity 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 accounting principles generally accepted in the United States of America, 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 Charity's ability to continue as a going concern for one year after the date that the financial statements are issued.

#### ***Auditor's 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 auditor's 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 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.

4828 Loop Central Dr.  
Suite 1000  
Houston, TX 77081  
Phone: 713.968.1600  
Fax: 713.968.1601

WWW.MCCONNELLJONES.COM



# McConnell Jones

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 the Charity'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 Charity'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.

*McConnell & Jones*

Houston, TX  
April 27, 2023

# HOUSTON CHILDREN'S CHARITY

## Statement of Financial Position

September 30, 2022 and 2021

|   | <u>2022</u>                | <u>2021</u>                |
|---|----------------------------|----------------------------|
| <b>ASSETS</b>                           |                            |                            |
| <b>CURRENT ASSETS</b>                   |                            |                            |
| Cash and cash equivalents               | \$ 784,276                 | \$ 505,200                 |
| Certificates of deposit                 | 512,023                    | 512,023                    |
| Accounts receivable                     | 317,642                    | 293,715                    |
| Prepaid expenses                        | 7,680                      | 9,408                      |
| Total current assets                    | <u>1,621,621</u>           | <u>1,320,346</u>           |
| <b>NONCURRENT ASSETS</b>                |                            |                            |
| Inventory                               | <u>9,523</u>               | <u>36,810</u>              |
| Total noncurrent assets                 | <u>9,523</u>               | <u>36,810</u>              |
| <b>TOTAL ASSETS</b>                     | <u><u>\$ 1,631,144</u></u> | <u><u>\$ 1,357,156</u></u> |
| <b>LIABILITIES</b>                      |                            |                            |
| <b>CURRENT LIABILITIES</b>              |                            |                            |
| Accounts payable                        | \$ 7,264                   | \$ 104                     |
| Accrued expenses and other liabilities  | <u>5,491</u>               | <u>12,502</u>              |
| Total current liabilities               | <u>12,755</u>              | <u>12,606</u>              |
| <b>TOTAL LIABILITIES</b>                | <u>12,755</u>              | <u>12,606</u>              |
| <b>NET ASSETS</b>                       |                            |                            |
| Without donor restrictions              | 1,618,389                  | 1,344,550                  |
| With donor restrictions                 | <u>-</u>                   | <u>-</u>                   |
| Total net assets                        | <u>1,618,389</u>           | <u>1,344,550</u>           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <u><u>\$ 1,631,144</u></u> | <u><u>\$ 1,357,156</u></u> |

*The accompanying notes are an integral part of these financial statements.*

**HOUSTON CHILDREN'S CHARITY**  
**Statement of Activities and Change in Net Assets**  
For the Year Ended September 30, 2022

|                                      | Without Donor<br>Restrictions | With Donor<br>Restrictions | Totals<br>2022      |
|--------------------------------------|-------------------------------|----------------------------|---------------------|
| <b>REVENUES</b>                      |                               |                            |                     |
| Gala Income                          | \$ 2,635,451                  | \$ -                       | \$ 2,635,451        |
| Less: direct donor benefit           | (333,906)                     | -                          | (333,906)           |
| Contributions                        | 991,587                       | -                          | 991,587             |
| Christmas                            | 11,143                        | -                          | 11,143              |
| Chariots for Children                | 220,500                       | -                          | 220,500             |
| Back to School                       | 1,047                         | -                          | 1,047               |
| Better Night's Sleep                 | 51,926                        | -                          | 51,926              |
| In-kind contributions                | 1,979,263                     | -                          | 1,979,263           |
| Other income                         | 29,156                        | -                          | 29,156              |
| <b>TOTAL REVENUES</b>                | <b>5,586,167</b>              | <b>-</b>                   | <b>5,586,167</b>    |
| <b>EXPENDITURES</b>                  |                               |                            |                     |
| Program services:                    |                               |                            |                     |
| Chariots for Children                | 1,950,313                     | -                          | 1,950,313           |
| Christmas                            | 1,675,301                     | -                          | 1,675,301           |
| Back to School                       | 120,483                       | -                          | 120,483             |
| Better Night's Sleep                 | 656,787                       | -                          | 656,787             |
| Total program services               | 4,402,884                     | -                          | 4,402,884           |
| Support services:                    |                               |                            |                     |
| Management and general               | 424,721                       | -                          | 424,721             |
| Fundraising activities               | 484,723                       | -                          | 484,723             |
| Total support services               | 909,444                       | -                          | 909,444             |
| <b>TOTAL EXPENDITURES</b>            | <b>5,312,328</b>              | <b>-</b>                   | <b>5,312,328</b>    |
| <b>CHANGE IN NET ASSETS</b>          | <b>273,839</b>                | <b>-</b>                   | <b>273,839</b>      |
| <b>NET ASSETS, BEGINNING OF YEAR</b> | <b>1,344,550</b>              | <b>-</b>                   | <b>1,344,550</b>    |
| <b>NET ASSETS, END OF YEAR</b>       | <b>\$ 1,618,389</b>           | <b>\$ -</b>                | <b>\$ 1,618,389</b> |

*The accompanying notes are an integral part of these financial statements.*

**HOUSTON CHILDREN'S CHARITY**  
**Statement of Activities and Change in Net Assets**  
For the Year Ended September 30, 2021

|                                      | Without Donor<br>Restrictions | With Donor<br>Restrictions | Totals<br>2021      |
|--------------------------------------|-------------------------------|----------------------------|---------------------|
| <b>REVENUES</b>                      |                               |                            |                     |
| Gala Income                          | \$ 1,218,439                  | \$ -                       | \$ 1,218,439        |
| Less: direct donor benefit           | (129,442)                     | -                          | (129,442)           |
| Contributions                        | 314,562                       | -                          | 314,562             |
| Christmas                            | 34,222                        | -                          | 34,222              |
| Chariots for Children                | 531,000                       | -                          | 531,000             |
| Back to School                       | 125,016                       | -                          | 125,016             |
| Better Night's Sleep                 | 77,316                        | -                          | 77,316              |
| In-kind contributions                | 2,181,190                     | -                          | 2,181,190           |
| Other income                         | 9,143                         | -                          | 9,143               |
| <b>TOTAL REVENUES</b>                | <b>4,361,446</b>              | <b>-</b>                   | <b>4,361,446</b>    |
| <b>EXPENDITURES</b>                  |                               |                            |                     |
| Program services:                    |                               |                            |                     |
| Chariots for Children                | 891,917                       | -                          | 891,917             |
| Christmas                            | 1,764,397                     | -                          | 1,764,397           |
| Back to School                       | 212,707                       | -                          | 212,707             |
| Better Night's Sleep                 | 606,796                       | -                          | 606,796             |
| Total program services               | 3,475,817                     | -                          | 3,475,817           |
| Support services:                    |                               |                            |                     |
| Management and general               | 389,286                       | -                          | 389,286             |
| Fundraising activities               | 240,431                       | -                          | 240,431             |
| Total support services               | 629,717                       | -                          | 629,717             |
| <b>TOTAL EXPENDITURES</b>            | <b>4,105,534</b>              | <b>-</b>                   | <b>4,105,534</b>    |
| <b>CHANGE IN NET ASSETS</b>          | <b>255,912</b>                | <b>-</b>                   | <b>255,912</b>      |
| <b>NET ASSETS, BEGINNING OF YEAR</b> | <b>1,088,638</b>              | <b>-</b>                   | <b>1,088,638</b>    |
| <b>NET ASSETS, END OF YEAR</b>       | <b>\$ 1,344,550</b>           | <b>\$ -</b>                | <b>\$ 1,344,550</b> |

*The accompanying notes are an integral part of these financial statements.*

# HOUSTON CHILDREN'S CHARITY

## Statement of Functional Expenses For the Year Ended September 30, 2022

|                              | Program Services         |                     |                   |                         | Support Services             |                           |                   | Total<br>2022<br>Expenditures |                              |
|------------------------------|--------------------------|---------------------|-------------------|-------------------------|------------------------------|---------------------------|-------------------|-------------------------------|------------------------------|
|                              | Chariots for<br>Children | Christmas           | Back to<br>School | Better Night's<br>Sleep | Total<br>Program<br>Services | Management<br>and General | Fundraising       |                               | Total<br>Support<br>Services |
| Payroll & related costs      | \$ 27,682                | \$ 178,677          | \$ 2,517          | \$ 42,782               | \$ 251,658                   | \$ 251,658                | \$ 251,659        | \$ 503,317                    | \$ 754,975                   |
| Direct Program Expense       | 1,577,313                | -                   | 97,596            | 231,322                 | 1,906,231                    | -                         | -                 | -                             | 1,906,231                    |
| Insurance                    | -                        | -                   | -                 | -                       | -                            | 36,433                    | -                 | 36,433                        | 36,433                       |
| Professional fees            | -                        | -                   | -                 | -                       | -                            | 28,803                    | -                 | 28,803                        | 28,803                       |
| Supplies                     | -                        | -                   | -                 | -                       | -                            | 14,846                    | -                 | 14,846                        | 14,846                       |
| Telephone & communications   | -                        | -                   | -                 | -                       | -                            | 13,494                    | -                 | 13,494                        | 13,494                       |
| Postage, printing & delivery | 344                      | 2,222               | 31                | 532                     | 3,129                        | 3,129                     | 3,128             | 6,257                         | 9,386                        |
| In-Kind-Expense              | 217,719                  | 1,405,277           | 19,793            | 336,474                 | 1,979,263                    | -                         | -                 | -                             | 1,979,263                    |
| Equipment rental &           | -                        | -                   | -                 | -                       | -                            | 14,168                    | -                 | 14,168                        | 14,168                       |
| Travel                       | 767                      | 4,949               | 70                | 1,185                   | 6,971                        | 6,971                     | 6,971             | 13,942                        | 20,913                       |
| Gala Fundraising expense     | -                        | -                   | -                 | -                       | -                            | -                         | 175,347           | 175,347                       | 175,347                      |
| Funding                      | 121,250                  | 50,368              | -                 | 36,397                  | 208,015                      | -                         | -                 | -                             | 208,015                      |
| Interest & finance charges   | -                        | -                   | -                 | -                       | -                            | 7,602                     | -                 | 7,602                         | 7,602                        |
| Other expenses               | 5,238                    | 33,808              | 476               | 8,095                   | 47,617                       | 47,617                    | 47,618            | 95,235                        | 142,852                      |
| <b>Total Expenses</b>        | <b>\$1,950,313</b>       | <b>\$ 1,675,301</b> | <b>\$ 120,483</b> | <b>\$ 656,787</b>       | <b>\$ 4,402,884</b>          | <b>\$ 424,721</b>         | <b>\$ 484,723</b> | <b>\$ 909,444</b>             | <b>\$ 5,312,328</b>          |

*The accompanying notes are an integral part of these financial statements.*



# HOUSTON CHILDREN'S CHARITY

## Statement of Functional Expenses

For the Year Ended September 30, 2021

|                                | Program Services         |                     |                   |                         | Support Services             |                           |                   | 2021<br>Total<br>Expenditures |                              |
|--------------------------------|--------------------------|---------------------|-------------------|-------------------------|------------------------------|---------------------------|-------------------|-------------------------------|------------------------------|
|                                | Chariots for<br>Children | Christmas           | Back to<br>School | Better Night's<br>Sleep | Total<br>Program<br>Services | Management<br>and General | Fundraising       |                               | Total<br>Support<br>Services |
| Payroll & related costs        | \$ 24,114                | \$ 157,604          | \$ 2,824          | \$ 38,342               | 222,884                      | \$ 222,883                | \$ 169,224        | \$ 392,107                    | \$ 614,991                   |
| Direct Program Expense         | 571,755                  | 45,404              | 78,554            | 82,548                  | 778,261                      | -                         | -                 | -                             | 778,261                      |
| Insurance                      | -                        | -                   | -                 | -                       | -                            | 35,271                    | -                 | 35,271                        | 35,271                       |
| Professional fees              | -                        | -                   | -                 | -                       | -                            | 31,300                    | -                 | 31,300                        | 31,300                       |
| Supplies                       | -                        | -                   | -                 | -                       | -                            | 6,929                     | -                 | 6,929                         | 6,929                        |
| Telephone & communications     | -                        | -                   | -                 | -                       | -                            | 5,796                     | -                 | 5,796                         | 5,796                        |
| Postage, printing & delivery   | 1,057                    | 6,906               | 124               | 1,681                   | 9,768                        | 9,764                     | 9,765             | 19,529                        | 29,297                       |
| In-Kind-Expense                | 232,000                  | 1,516,313           | 27,171            | 368,896                 | 2,144,380                    | -                         | -                 | -                             | 2,144,380                    |
| Equipment rental & maintenance | -                        | -                   | -                 | -                       | -                            | 6,980                     | -                 | 6,980                         | 6,980                        |
| Travel                         | 1,252                    | 8,181               | 147               | 1,988                   | 11,568                       | 23,138                    | -                 | 23,138                        | 34,706                       |
| Gala Fundrasing expense        | -                        | -                   | -                 | -                       | -                            | -                         | 19,022            | 19,022                        | 19,022                       |
| Funding                        | 57,151                   | -                   | 103,350           | 106,035                 | 266,536                      | -                         | -                 | -                             | 266,536                      |
| Interest & finance charges     | -                        | -                   | -                 | -                       | -                            | 4,803                     | -                 | 4,803                         | 4,803                        |
| Other expenses                 | 4,588                    | 29,989              | 537               | 7,306                   | 42,420                       | 42,422                    | 42,420            | 84,842                        | 127,262                      |
| <b>Total Expenses</b>          | <b>\$ 891,917</b>        | <b>\$ 1,764,397</b> | <b>\$ 212,707</b> | <b>\$ 606,796</b>       | <b>\$ 3,475,817</b>          | <b>\$ 389,286</b>         | <b>\$ 240,431</b> | <b>\$ 629,717</b>             | <b>\$ 4,105,534</b>          |

*The accompanying notes are an integral part of these financial statements.*

**HOUSTON CHILDREN'S CHARITY**  
**Statement of Cash Flows**  
For the Year Ended September 30, 2022 and 2021

|   | <b>2022</b> | <b>2021</b> |
|---|-------------|-------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |             |             |
| Change in net assets  | \$ 273,839  | \$ 255,912  |
| Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities: |             |             |
| Loan forgiveness  | -           | (128,049)   |
| Loss on disposal of fixed assets  | -           | 6,217       |
| Changes in operating assets and liabilities   |             |             |
| Increase in accounts receivable   | (23,927)    | (41,997)    |
| Decrease (increase) in inventory  | 27,287      | (36,810)    |
| Decrease in prepaid expenses  | 1,728       | 6,991       |
| Increase (decrease) in accounts payable   | 7,160       | (102,189)   |
| (Decrease) increase in accrued expenses and other liabilities   | (7,011)     | 12,502      |
| Total adjustments   | 5,237       | (283,335)   |
| Net cash provided by/(used in) operating activities   | 279,076     | (27,423)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |             |             |
| Reinvestment of earnings from certificate of deposit  | -           | (1,082)     |
| Cash used in investing activities   | -           | (1,082)     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |             |             |
| Proceeds from SBA loan  | -           | 73,149      |
| Cash provided by financing activities   | -           | 73,149      |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>  | 279,076     | 44,644      |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>   | 505,200     | 460,556     |
| <b>CASH, AND CASH EQUIVALENTS AT END OF YEAR</b>  | \$ 784,276  | \$ 505,200  |

*The accompanying notes are an integral part of these financial statements.*

# HOUSTON CHILDREN'S CHARITY

## Notes to the Financial Statement

September 30, 2022 and 2021

### 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 is required under GAAP to report information presented in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 958-205, Financial Statements of Not-for-Profit Organizations. Under FASB ASC Topic 958-205, the Charity is required to report information regarding its financial position and activities according to two classes of net assets as follows:

- *Net Assets without donor restrictions* – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the Charity. These net assets may be used at the discretion of the Charity's management and Board of Directors.
- *Net Assets with donor restrictions* – These are resources that are subject to donor-imposed stipulations that may be met, either by actions of the Charity and/or the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. The Charity did not have any donor restricted net assets as of September 30, 2022 and 2021.

When both restricted and unrestricted resources are available for use, it is the Charity's policy to use resources with donor restrictions first, then resources without donor restrictions as they are needed.

**Revenue Recognition**- Generally, grants are recognized as revenues when earned. Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues only to the extent of disbursements that are allowable for reimbursement. Revenues from contributions, donations and other sources are recognized as with or without donor restriction revenues when received or unconditionally promised by a third party. Interest income is recognized when earned based on the passage of time. Program income and other income are recognized when received. Conditional promises by third parties to give cash or other assets to the Charity are not recognized until the cash or other assets are received.

**Contributions** - Contributions received are recorded as with or without donor restriction depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting

# HOUSTON CHILDREN'S CHARITY

## Notes to the Financial Statement

September 30, 2022 and 2021

period in which the support is recognize. All other donor-restricted contributions are reported as increases in net assets with donor restriction, depending on the nature of the restrictions. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction upon satisfaction of the time or purpose restrictions and reported in the statement of activities as net assets released from restrictions.

Gala revenue is comprised of an exchange revenue element based upon the direct benefit donors receive and a contribution element for the difference. The Charity recognizes the contribution revenue immediately, unless there is a right of return if the special event does not take place.

**Cash and Cash Equivalents** - The Charity considers cash on hand, cash in banks and money market accounts with an initial maturity of three months or less to be cash and cash equivalents.

**Concentration of Credit Risk** - Financial instruments that potentially subject the Charity to a significant concentration of credit risk consists primarily of cash and cash equivalents. The Charity maintains its cash in financial institutions, which at times exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC). Bank balances are insured by the FDIC up to \$250,000. The amount exceeding the FDIC insured limit as of September 30, 2022 and September 30, 2021 was \$1,080,325 and \$801,578, respectively. Management periodically assesses the financial condition of the financial institutions and believes that any possible credit risk is minimal.

**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. Therefore, no provision has been made for federal and state income taxes in these financial statements.

Uncertain tax positions are recognized in the financial statements only if the position is more-likely-than- not of being sustained upon examination by taxing authorities, based on the technical merits of the position. The Charity did not recognize any interest and penalties related to uncertain tax positions in 2022 and 2021.

**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 year ended September 30, 2021, management decided to dispose of the fixed assets that the Charity maintained and recorded a loss on disposal of \$6,217.

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.

**Functional Expense Allocation** - The costs of providing various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Such allocations are determined by management on an equitable basis. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefited. Salaries and related costs are allocated on the basis of estimated time and effort expended.

**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.

**Reclassifications** - Certain amounts in the prior period financial statements have been classified to conform to the presentation of the current period financial statements. This reclassification has no effect on the previously reported change in net assets.

# HOUSTON CHILDREN'S CHARITY

## Notes to the Financial Statement

September 30, 2022 and 2021

**New Accounting Pronouncements** - In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU will require most leases to be recognized on the statements of financial position as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. In June 2020, the FASB issued ASU No. 2020-05, Revenue From Contracts With Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities, to defer these standards. Under the deferral for leases rules, private companies and private not-for-profit organizations can apply the standard to fiscal years beginning after December 15, 2021. ASU No. 2016-02 required a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Charity is in the process of evaluating the impact that the provisions of ASU 2016-02 may have on the financial statements.

In September 2020, the FASB issued ASU No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash or other financial assets. It also requires a not-for-profit to disclose contributed nonfinancial assets recognized within the statements of activities disaggregated by category that depicts the type of contributed nonfinancial assets and includes additional disclosure requirements for each category of contributed nonfinancial assets recognized. The ASU is effective for a not-for-profit entity for annual periods beginning after June 15, 2021. The Charity adopted ASU 2020-07 in 2022. The adoption resulted in no impact on the financial statements.

### 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 and (2) assets to be auctioned by the Charity at its fund raising events, collectively these amounted to \$1,979,263 and \$2,181,190 for the year ended September 30, 2022 and 2021, respectively. 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 in October of each year. Contributions reflected are valued at estimated fair market values, which were determined by the donors or by estimates by the staff of the Charity.

### NOTE 4 – ACCOUNTS RECEIVABLE

Receivables represent gift pledges from donors that were pending from funding sources for program expenses incurred as of September 30, 2022 and 2021, and are expected to be received in the subsequent year. Management considers receivables as of September 30, 2022 and 2021 to be fully collectible therefore no allowance for doubtful account was recorded.

### NOTE 5 – 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 6 – SMALL BUSINESS ADMINISTRATION LOANS

During 2021, the Charity received loans from the Small Business Administration (SBA) in the amount of \$0, respectively, under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. During 2021, the Charity received notice from their lender that the eligible expenditures for payroll and other expenses described in the CARES Act has been forgiven and paid in full by the SBA. The amounts forgiven is included as contributions revenue in the September 30, 2021 accompanying statement of activities. The Charity did not receive funds from SBA during 2022.

# HOUSTON CHILDREN'S CHARITY

## Notes to the Financial Statement

September 30, 2022 and 2021

### NOTE 7 – LEASES

The Charity leases the corporate office space and the warehouse space in which donated items are held pending distribution to its clients. Total rent expense for all leases was \$85,143 and \$83,075 for the year ended September 30, 2022 and 2021, respectively.

The following is the schedule of the minimum future obligations from lease payable:

| <u>Year ending September 30,</u> | <u>Amount</u>     |
|----------------------------------|-------------------|
| 2023                             | \$ 77,349         |
| 2024                             | 79,954            |
| 2025                             | 58,598            |
|                                  | <u>\$ 215,901</u> |

### NOTE 8 – RELATED PARTY TRANSACTIONS

During 2022 and 2021, the Charity received cash donations from members of the Board of Directors and employees amounting to \$465,223 and \$845,722, respectively.

### NOTE 9 – CONTINGENT LIABILITIES

The Charity is a defendant in one legal proceeding. In the best judgement of the Charity's management, and after consultation with its legal counsel, the outcome of any present proceedings will not have a material adverse effect on the accompanying financial statements.

### NOTE 10 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Charity regularly monitors liquidity required to meet its operating needs. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Charity considers all expenditures related to its ongoing activities, including program expenses, as well as services undertaken to support those programs, to be general expenditures.

The following table shows the total financial assets held by the Charity at September 30, 2022 and 2021, and the amounts of those financial assets that could readily be made available within one year of the statement of financial position dates to meet general expenditures:

|  |                     |                   |
|--|---------------------|-------------------|
| Financial assets at year end:  | <u>2022</u>         | <u>2021</u>       |
| Cash and cash equivalents  | \$ 784,276          | \$ 505,200        |
| Certificate of deposit   | 512,023             | 512,023           |
| Accounts receivable  | 317,642             | 293,715           |
| Total financial assets   | <u>1,613,941</u>    | <u>1,310,938</u>  |
| Less those unavailable for general expenditures<br>within one year:                    | 512,023             | 512,023           |
| Financial assets available to meet general expenditures<br>over the next twelve months | <u>\$ 1,101,918</u> | <u>\$ 798,915</u> |

# **HOUSTON CHILDREN'S CHARITY**

## **Notes to the Financial Statement**

September 30, 2022 and 2021

### **NOTE 11 – DATE OF MANAGEMENT'S REVIEW**

Management has evaluated subsequent events through April 27, 2023 (the date which the financial statements were available to be issued) and no events have occurred from the statement of financial position date through that date, that would impact the financial statements.