

Julia C. Hester House, Inc.

FINANCIAL STATEMENTS

December 31, 2015



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**Julia C. Hester House, Inc.
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December 31, 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Julia C. Hester House, Inc.
Houston, Texas

We have audited the accompanying financial statements of Julia C. Hester House, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Julia C. Hester House, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Car, Riggs & Ingram, L.L.C.

Houston, Texas
October 19, 2016

Julia C. Hester House, Inc.
Statement of Financial Position

<i>December 31,</i>	2015
Assets	
Current assets	
Cash and cash equivalents	\$ 140,127
Investment	27,438
Grants and pledges receivable	53,100
Prepaid expenses	20,295
Total current assets	240,960
Restricted cash and cash equivalents	398,413
Property and equipment, net	5,024,401
Total assets	\$ 5,663,774
Liabilities and Net Assets	
Current liabilities	
Accounts payable	\$ 4,649
Accrued expenses	16,068
Current maturities of long-term debt	18,362
Total current liabilities	39,079
Long-term debt, net of current maturities	28,508
Total liabilities	67,587
Commitments and contingencies	
Net assets	
Unrestricted	1,437,727
Temporarily restricted	4,158,460
Total net assets	5,596,187
Total liabilities and net assets	\$ 5,663,774

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

Julia C. Hester House, Inc.
Statement of Activities and Changes in Net Assets

For the year ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
United Way allocations	\$ 225,177	\$ -	\$ 225,177
Supporting income	985,144	-	985,144
Program	6,409	-	6,409
Rental	60,013	-	60,013
Investment return, net	(3,551)	-	(3,551)
Other	14,580	-	14,580
Total revenue	1,287,772	-	1,287,772
Net assets released from restrictions			
Time restrictions	7,500	(7,500)	-
Program expenditures	575,951	(575,951)	-
Total support and revenue	1,871,223	(583,451)	1,287,772
Expenses			
Program services			
Early childhood services	632,991	-	632,991
Family and social services	308,153	-	308,153
Senior services	437,841	-	437,841
Total program services	1,378,985	-	1,378,985
Supporting services			
Fundraising	955	-	955
Management and general	147,922	-	147,922
Total supporting services	148,877	-	148,877
Total expenses	1,527,862	-	1,527,862
Changes in net assets	343,361	(583,451)	(240,090)
Net assets at beginning of year	1,094,366	4,741,911	5,836,277
Net assets at end of year	\$ 1,437,727	\$ 4,158,460	\$ 5,596,187

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

Julia C. Hester House, Inc.
Statement of Functional Expenses

For the year ended December 31,

2015

	Program Services			Supporting Services		Total
	Early Childhood Services	Family and Social Services	Senior Services	Fundraising	Management and General	
Salaries and related expenses						
Salaries	\$ 246,350	\$ 120,803	\$ 212,920	\$ -	\$ 58,684	\$ 638,757
Employee fringe benefits	43,263	27,536	48,426	-	12,504	131,729
Payroll taxes	23,289	8,714	15,761	-	4,461	52,225
Total salaries and related expenses	312,902	157,053	277,107	-	75,649	822,711
Operating expenses						
Automobile expenses	1,572	722	3,123	-	774	6,191
Rental and maintenance	6,683	4,225	4,718	-	3,892	19,518
Insurance	19,254	10,640	10,640	-	10,543	51,077
Other expenses	7,647	2,511	3,056	-	6,510	19,724
Professional fees	48,453	2,449	2,651	-	3,587	57,140
Program services	75,635	37,195	40,798	-	-	153,628
Special events	40	22	22	955	107	1,146
Supplies	19,936	15,367	14,829	-	3,386	53,518
Telephone and telecommunication	1,715	946	946	-	901	4,508
Utilities	38,661	21,366	21,534	-	20,356	101,917
Total operating expenses before depreciation	219,596	95,443	102,317	955	50,056	468,367
Depreciation	100,493	55,657	58,417	-	22,217	236,784
Total expenses	\$ 632,991	\$ 308,153	\$ 437,841	\$ 955	\$ 147,922	\$ 1,527,862

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

Julia C. Hester House, Inc.
Statement of Cash Flows

For the year ended December 31,

2015

Operating activities

Change in net assets	\$ (240,090)
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Unrealized loss on investments	5,104
Bad debt expense	(4,786)
Depreciation	236,784
Changes in operating assets and liabilities	
Accounts receivable	89,320
Grants and pledges receivable	14,184
Accounts payable	(50,371)
Accrued expenses	11,485
Refundable advances	(25,000)

Net cash provided by operating activities 36,630

Investing activities

Transfer of restricted cash	158,572
Purchase of property and equipment	(52,506)

Net cash provided by investing activities 106,066

Financing activities

Payments on long-term debt	(45,276)
Proceeds from long-term debt	34,258

Net cash used in financing activities (11,018)

Net change in cash and cash equivalents 131,678

Cash and cash equivalents at beginning of year 8,449

Cash and cash equivalents at end of year \$ 140,127

Supplemental cash flow information:

Cash paid for interest \$ 3,130

Noncash investing and financing activities:

Prepaid expenses financed with assumption of short-term debt \$ 20,295

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



Julia C. Hester House, Inc. Notes to the Financial Statements

NOTE 1: ORGANIZATION

Organization

Julia C. Hester House, Inc. (the Organization) is a non-profit Texas corporation founded in 1943 to provide social services to residents of the Fifth Ward community in Houston, Texas. The Organization's services are primarily funded by United Way of the Texas Gulf Coast (United Way) and Harris County, Texas (the County).

Programs

Early Childhood Services

The overall goal of this program is to foster a positive, healthy learning environment for the children of the Fifth Ward community and to continue to empower individual families. Based on Head Start Performance Standards and Texas Early Learning Standards, the program encourages each child to explore the environment in a positive way with a strong emphasis on early literacy and strong family support.

Family and Social Services

Through support and case management services, this program addresses immediate client needs while assessing root causes impacting the client's ability to maintain and/or achieve self-sufficiency. The elimination of these obstacles allows families to achieve personal, educational, and economic independence, which ultimately enhances the quality of life in the Fifth Ward and surrounding communities. The Organization has partnered with two service providers, Wesley Community Center and Career and Recovery Resources, Inc., to operate a food pantry and support workforce development.

Senior Services

The Senior Services program empowers seniors to live independently and with dignity. Critical services for the elderly are provided in a community-based environment promoting health and nutrition, social activities, recreation, and supportive services. The program seeks to decrease loneliness and isolation, improve and maintain health conditions, and provide linkage to critical resources to help sustain at-risk seniors within their homes. Ultimately, the impact will result in an increase in lifestyle changes, which supports the Organization's mission of promoting quality of living in the Fifth Ward community.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted as follows:

Unrestricted net assets – Represent those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.



Julia C. Hester House, Inc.
Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily restricted net assets – Consist of contributions restricted by donor to use for specific purposes or requiring a specific passage of time before funds can be spent.

Permanently restricted net assets – Represent contributions donors have restricted in perpetuity, but permit expenditures of income derived from the donated assets to be expended for temporarily restricted or unrestricted purposes.

Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and highly liquid financial instruments with original maturities of three months or less. Restricted cash is limited in use to payment of costs to construct and repair long-term assets, as required by donors.

Investment

The Organization's investment in an equity security is reported at fair value. Investment return is reported in the statement of activities and changes in net assets as an increase in unrestricted net assets as the use of the income is not limited by donor-imposed restrictions.

Grants and Pledges Receivable

Grants and pledges receivable that are expected to be collected within one year are reported at net realizable value. Grants and pledges receivable that are expected to be collected in future years are discounted, if material, to estimate the present value of future cash flows. Grants and pledges receivable at December 31, 2015 are expected to be collected in 2016.

An allowance for uncollectible pledges is provided when management identifies individual pledges that may not be collected in full. As of December 31, 2015 no allowance was considered necessary. If amounts become uncollectible, they will be charged to operations when that determination is made.

Property and Equipment

Property is reported at cost, if purchased. The Organization capitalizes all expenditures for property and equipment with a cost greater than \$1,000. Donated assets are capitalized, and recorded as support, at their fair value at the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Routine maintenance and repair costs are charged to expense in the year incurred.

Julia C. Hester House, Inc.
Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is computed using the straight-line method over estimated useful lives of the respective classes of assets. The estimate useful lives are as follows:

Building and leasehold improvements	25 years
Furniture and equipment	5 – 15 years

Long-Lived Assets

Long-lived assets are evaluated for impairment in accordance with generally accepted accounting principles which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. This review requires significant judgments both in assessing events and circumstances as well as estimating future cash flows. Should events indicate that any of the assets are impaired, the amount of such impairment will be measured as the difference between the carrying value and the fair value of the impaired asset and the impairment will be recorded in earnings during the period of such impairment. Management believes no impairment has occurred with respect to long-lived assets as of December 31, 2015.

Fair Value Considerations

The Organization uses fair value to measure financial and certain nonfinancial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy established and prioritized fair value measurements into three levels based on the nature of the inputs. The hierarchy gives the highest priority to inputs based on market data from independent sources (observable inputs-Level 1) and the lowest priority to a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs-Level 3).

The fair value option allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an organization elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. The Organization did not elect the fair value option for the measurement of any eligible assets or liabilities.

Financial instruments (primarily cash and cash equivalents, investments, and various receivables and liabilities) are carried in the accompanying statement of financial position at amounts which reasonably approximate fair value.

Contributions

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received are recognized as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.



Julia C. Hester House, Inc.
Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Support that is restricted by the donor and is to be used in future periods is reported as an increase in temporarily or permanently restricted net assets in the reporting period in which the support is recognized. When restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reporting in the statement of activities and changes in net assets as net assets released from restrictions.

Donated Materials and Services

Donated materials and services are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. For the year ended December 31, 2015, the Organization received donated materials and supplies for its programs and other building related costs totaling \$147,868 from the County.

A substantial amount of unpaid volunteers make significant contributions of their time to develop the Organization's programs. The value of the contributed time is not reflected in these statements because it does not require a specialized skill or create or enhance a nonfinancial asset.

Income Taxes

The Organization is exempt from income taxes under 501(c)(3) of the Internal Revenue Code and a similar provision of state law, and is further classified as a public charity. Therefore, no provision for federal income tax has been made in these financial statements. The Organization has determined there are no uncertain tax positions that require recognition or disclosure in the accompanying financial statements.

Use of Estimates

The Organization uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles of the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Estimates that have the most impact on financial position and results of operations primarily relate to the collectability of grants and pledges receivable, useful lives of property and equipment, and the allocation of expenses among various functions. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Subsequent Events

The Organization has evaluated subsequent events through the time the financial statements are available for issuance on October 19, 2016. No matters were identified affecting the financial statements and related disclosures.

Julia C. Hester House, Inc.
Notes to the Financial Statements

NOTE 3: FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three tier fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs that may be used to measure fair value are as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than Level 1 inputs that are either directly or indirectly observable such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or other inputs not directly observable, but derived principally from, or corroborated by, observable market data.
- Level 3: Unobservable inputs that are supported by little or no market activity.

The Organization utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The value of the assets measured at fair value on a recurring basis is as follows:

	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
December 31, 2015:				
Equity securities	\$ 27,438	\$ -	\$ -	\$ 27,438

The following summarizes the investment return in the statement of activities and changes in net assets:

<i>December 31,</i>	2015
Interest and dividends	\$ 1,553
Unrealized losses	(5,104)
	\$ (3,551)

Julia C. Hester House, Inc.
Notes to the Financial Statements

NOTE 4: PROPERTY AND EQUIPMENT

Property consists of the following:

<i>December 31,</i>	2015
Land	\$ 11,000
Building and leasehold improvements	6,023,535
Furniture and equipment	385,317
	6,419,852
Accumulated depreciation	(1,395,451)
	\$ 5,024,401

Included in property and equipment is \$4,142,426 of contributed building (Wellness Center). If the Organization does not continue to use such building in its operations for a period of no less than 10 years, either the title to the building or the proceeds from the sale of the building will revert to the original donor.

Depreciation expense for the year ended December 31, 2015 totaled \$236,784.

NOTE 5: LONG-TERM DEBT

Long-term debt consists of the following:

<i>December 31,</i>	2015
Uncollateralized, note payable to a financial institution in monthly installments of \$966, including interest at 3.5%; matures August 2019	\$ 38,875
Uncollateralized note payable to finance property insurance premiums, in monthly installments of \$2,072, including interest at 12.5%; matured January 2016	2,051
Uncollateralized note payable to finance liability insurance premiums, in monthly installments of \$747, including interest at 15.1%; matured June 2016	4,289
Uncollateralized note payable to finance automobile insurance premiums, in monthly installments of \$539, including a \$6 fee; matures September 2016	1,655
	46,870
Less: current portion	(18,362)
	\$ 28,508

Julia C. Hester House, Inc.
Notes to the Financial Statements

NOTE 5: LONG-TERM DEBT (Continued)

Future maturities of long-term debt are as follows:

<i>For the year ending December 31,</i>	
	\$ 18,362
2016	\$ 18,362
2017	10,438
2018	11,117
2019	6,953
	\$ 46,870

NOTE 6: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

<i>December 31,</i>	2015
Wellness Center	\$ 3,728,183
Capital expenditures	398,413
Fine arts program	26,864
Use in future periods	5,000
	\$ 4,158,460

NOTE 7: COMMITMENTS AND CONTINGENCIES

Joint Participation Agreement

Beginning June 1, 2013, the Organization and the County entered into an initial four year joint participation agreement; provided, however that the agreement will renew for subsequent four year terms automatically unless either party provides notice at least sixty (60) days prior to subsequent term start date that the party will not renew for a subsequent term. In accordance with the agreement, the Organization will maintain ownership of its land and facilities and continue to operate the Wellness Center; and the County will use its resources to integrate into the current operations offered by the Organization or separately run programs, activities, meetings, and other services at the Organization's facilities.

In July 2014, the joint participation agreement was amended to extend the initial term from four years to ten years; provided however, that the agreement will renew for subsequent ten year terms automatically unless either party provides notice at least sixty (60) days prior to the subsequent term start date that the party will not renew for a subsequent term. A Term Period begins on June 1 and ends with the expiration of May 31 ten years later.

Julia C. Hester House, Inc.
Notes to the Financial Statements

NOTE 7: COMMITMENTS AND CONTINGENCIES (Continued)

Operating Lease

The Organization has a lease agreement with a third party for the rental of 30,000 square feet of land for the purpose of the Early Head Start Child Development Program. The land with a cost amount of \$11,000 is included in property and equipment in the statement of financial position. The lease has a termination date of June 30, 2019 or 30 days after lessee's notice to the Organization that the lessee is no longer receiving certain funding for its services. Rental income is recorded over the lease term, and approximates straight-line recognition. Rental income under the operating lease for 2015 was \$60,013.

Future minimum rental income is as follows:

<i>For the year ending December 31,</i>	
2016	\$ 56,756
2017	58,459
2018	60,213
2019	30,551
	\$ 205,979

Concentrations of Credit Risk

Financial instruments, which subject the Organization to concentrations of credit risk, consist principally of cash and cash equivalents and investments in marketable securities. Cash and investments are maintained with financial institutions and brokerage firms in the United States. Deposits with financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. Investments held at brokerage firms are not insured. In monitoring this credit risk, the Organization periodically evaluates the stability of the financial institutions and brokerage firms.

The Organization receives a large portion of its funding from United Way and the County. As of December 31, 2015, United Way and the County contributions comprised approximately 89% of grants and pledges receivable. The remaining 11% of receivables as of December 31, 2015 was due from the City of Houston. United Way and the County contributions were approximately 92% of total support and revenue for the year ended December 31, 2015. Included in supporting income is \$610,414 of labor and benefits which represent the cost of staff used for the Organization's programs of which the County does not request reimbursement.

Funding sources may suspend payments, require reimbursement of expenses or return of funds, or both, as a result of noncompliance with the terms of a funding agreement. This could result in a liability or decrease of revenues for the Organization. Also, grants and pledges are funded annually and subject to annual funding renewals. In management's opinion, the risk of these events occurring is minimal, and would not have a material adverse effect on the Organization's financial position or results of its operations. Should any of these events occur, management's contingency plan includes raising funds through other sources, including but not limited to alumni, foundations and corporations, small businesses, professional associations, faith communities, and other individuals.