

The Beacon of Downtown Houston
(formerly Cathedral Health and Outreach Ministries)

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2017 and 2016

**The Beacon of Downtown Houston
(formerly Cathedral Health and Outreach Ministries)**

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of December 31, 2017 and 2016	3
Statement of Activities for the year ended December 31, 2017	4
Statement of Activities for the year ended December 31, 2016	5
Statement of Functional Expenses for the year ended December 31, 2017	6
Statement of Functional Expenses for the year ended December 31, 2016	7
Statements of Cash Flows for the years ended December 31, 2017 and 2016	8
Notes to Financial Statements for the years ended December 31, 2017 and 2016	9

Independent Auditors' Report

To the Board of Directors of
The Beacon of Downtown Houston:

Report on the Financial Statements

We have audited the accompanying financial statements of The Beacon of Downtown Houston, an outreach ministry of Christ Church Cathedral, which comprise the statements of financial position as of December 31, 2017 and 2016 and the related statements of activities, of functional expenses, and of 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits 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 auditors' 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 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, 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 The Beacon of Downtown Houston as of December 31, 2017 and 2016 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.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2018, on our consideration of The Beacon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Beacon's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Beacon's internal control over financial reporting and compliance.

Blazek & Vetterling

July 30, 2018

The Beacon of Downtown Houston
(formerly Cathedral Health and Outreach Ministries)

Statements of Financial Position as of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 384,383	\$ 223,872
Government grants and contracts receivable <i>(Note 3)</i>	116,564	152,398
Pledges receivable	541,298	297,537
Prepaid expenses and other assets	28,756	15,756
Due from Christ Church Cathedral		19,228
Property, net <i>(Note 4)</i>	<u>762,103</u>	<u>801,189</u>
 TOTAL ASSETS	 <u>\$ 1,833,104</u>	 <u>\$ 1,509,980</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ <u>43,925</u>	\$ <u>44,094</u>
Commitments and contingencies <i>(Note 3)</i>		
Net assets:		
Unrestricted	1,328,337	1,159,976
Temporarily restricted <i>(Note 7)</i>	<u>460,842</u>	<u>305,910</u>
Total net assets	<u>1,789,179</u>	<u>1,465,886</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,833,104</u>	 <u>\$ 1,509,980</u>

See accompanying notes to financial statements.

The Beacon of Downtown Houston
(formerly Cathedral Health and Outreach Ministries)

Statement of Activities for the year ended December 31, 2017

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions <i>(Notes 5 and 6)</i>	\$ 735,808	\$ 1,156,713	\$ 1,892,521
Government grants and other contracts	213,369	50,000	263,369
Special event revenue	623,315		623,315
Cost of donor benefits provided at special event	(37,848)		(37,848)
Support from related parties <i>(Notes 2 and 5)</i>	<u>635,039</u>		<u>635,039</u>
Total revenue	2,169,683	1,206,713	3,376,396
Net assets released from restrictions:			
Expended for program purposes	951,781	(951,781)	
Release of time restriction	<u>100,000</u>	<u>(100,000)</u>	
Total	<u>3,221,464</u>	<u>154,932</u>	<u>3,376,396</u>
EXPENSES:			
Program expenses:			
Day Center	1,363,616		1,363,616
Beacon Law	726,118		726,118
Brigid's Hope	217,302		217,302
Coordinated Access	<u>122,361</u>		<u>122,361</u>
Total program expenses	2,429,397		2,429,397
Management and general	394,589		394,589
Fundraising	<u>229,117</u>		<u>229,117</u>
Total expenses	<u>3,053,103</u>		<u>3,053,103</u>
CHANGES IN NET ASSETS	168,361	154,932	323,293
Net assets, beginning of year	<u>1,159,976</u>	<u>305,910</u>	<u>1,465,886</u>
Net assets, end of year	<u>\$ 1,328,337</u>	<u>\$ 460,842</u>	<u>\$ 1,789,179</u>

See accompanying notes to financial statements.

The Beacon of Downtown Houston
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Statement of Activities for the year ended December 31, 2016

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions <i>(Notes 5 and 6)</i>	\$ 701,436	\$ 535,564	\$ 1,237,000
Government grants and other contracts	524,544		524,544
Special event revenue	402,471	33,300	435,771
Cost of donor benefits provided at special event	(29,349)		(29,349)
Support from related parties <i>(Notes 2 and 5)</i>	<u>671,681</u>		<u>671,681</u>
Total revenue	2,270,783	568,864	2,839,647
Net assets released from restrictions:			
Expended for program purposes	663,597	(663,597)	
Release of time restriction	<u>176,250</u>	<u>(176,250)</u>	
Total	<u>3,110,630</u>	<u>(270,983)</u>	<u>2,839,647</u>
EXPENSES:			
Program expenses:			
Day Center	1,470,847		1,470,847
Beacon Law	528,266		528,266
Brigid's Hope	204,732		204,732
Coordinated Access	<u>87,421</u>		<u>87,421</u>
Total program expenses	2,291,266		2,291,266
Management and general	371,311		371,311
Fundraising	<u>205,713</u>		<u>205,713</u>
Total expenses	<u>2,868,290</u>		<u>2,868,290</u>
CHANGES IN NET ASSETS	242,340	(270,983)	(28,643)
Net assets, beginning of year	<u>917,636</u>	<u>576,893</u>	<u>1,494,529</u>
Net assets, end of year	<u>\$ 1,159,976</u>	<u>\$ 305,910</u>	<u>\$ 1,465,886</u>

See accompanying notes to financial statements.

The Beacon of Downtown Houston
(formerly Cathedral Health and Outreach Ministries)

Statement of Functional Expenses for the year ended December 31, 2017

<u>EXPENSES</u>	<u>DAY CENTER</u>	<u>BEACON LAW</u>	<u>BRIGID'S HOPE</u>	<u>COORDINATED ACCESS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and related expenses	\$ 380,317	\$ 650,211	\$ 97,140	\$ 102,921	\$ 233,631	\$ 183,174	\$ 1,647,394
Occupancy	470,343	32,550		14,200	49,283	4,031	570,407
Security services	186,323						186,323
Client laundry, personal hygiene, clothing and food supplies	138,400		512				138,912
Professional services		750	16,200		81,432	7,149	105,531
Other client assistance	47,566	6,349	23,459	1,000			78,374
Client housing rent			76,895				76,895
Repairs and maintenance	55,738		953		2,345		59,036
Depreciation	34,473			970	2,450	1,192	39,085
Insurance	23,541			662	9,180	814	34,197
Other supplies	3,120	17,243	414	919	9,100	1,366	32,162
Telephone and technology	23,385	880	103	658	1,662	809	27,497
Dues and fees	310	2,366	341		2,956	13,436	19,409
Printing and copying		136			82	7,878	8,096
Other	<u>100</u>	<u>15,633</u>	<u>1,285</u>	<u>1,031</u>	<u>2,468</u>	<u>9,268</u>	<u>29,785</u>
Total expenses	<u>\$ 1,363,616</u>	<u>\$ 726,118</u>	<u>\$ 217,302</u>	<u>\$ 122,361</u>	<u>\$ 394,589</u>	<u>\$ 229,117</u>	3,053,103
Cost of donor benefits provided at special event							<u>37,848</u>
Total							<u>\$ 3,090,951</u>

See accompanying notes to financial statements.

The Beacon of Downtown Houston
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Statement of Functional Expenses for the year ended December 31, 2016

<u>EXPENSES</u>	<u>DAY CENTER</u>	<u>BEACON LAW</u>	<u>BRIGID'S HOPE</u>	<u>COORDINATED ACCESS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and related expenses	\$ 479,188	\$ 470,814	\$ 91,673	\$ 69,810	\$ 187,060	\$ 155,034	\$ 1,453,579
Occupancy	566,725	25,000		15,948	40,271	19,601	667,545
Security services	210,257						210,257
Client laundry, personal hygiene, clothing and food supplies	120,302		397				120,699
Professional services	1,400		12,600		102,873	3,702	120,575
Other client assistance	4,339	307	26,974				31,620
Client housing rent			71,447				71,447
Repairs and maintenance	18,863				11,894		30,757
Depreciation	20,895			588	1,485	723	23,691
Insurance	24,400			687	10,435	844	36,366
Other supplies	111	16,111	487	307	5,549	7,825	30,390
Telephone and technology	18,195	544		(33)	1,293	629	20,628
Dues and fees	380	5,330	225		6	10,138	16,079
Printing and copying	107	421			771	5,567	6,866
Training and reference material	315	5,749	548		1,372	390	8,374
Postage and shipping	4,042	833		114	287	772	6,048
Other	1,328	3,157	381		8,015	488	13,369
Total expenses	<u>\$ 1,470,847</u>	<u>\$ 528,266</u>	<u>\$ 204,732</u>	<u>\$ 87,421</u>	<u>\$ 371,311</u>	<u>\$ 205,713</u>	2,868,290
Cost of donor benefits provided at special event							<u>29,349</u>
Total							<u>\$ 2,897,639</u>

See accompanying notes to financial statements.

The Beacon of Downtown Houston
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Statements of Cash Flows for the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 323,293	\$ (28,643)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	39,086	23,691
Changes in operating assets and liabilities:		
Government grants and contracts receivable	35,834	268,479
Pledges receivable	(243,761)	316,612
Prepaid expenses and other assets	(13,000)	2,126
Due from Christ Church Cathedral	19,228	
Accounts payable	<u>(169)</u>	<u>(298,791)</u>
Net cash provided by operating activities	<u>160,511</u>	<u>283,474</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property		<u>(367,356)</u>
NET CHANGE IN CASH	160,511	(83,882)
Cash, beginning of year	<u>223,872</u>	<u>307,754</u>
Cash, end of year	<u>\$ 384,383</u>	<u>\$ 223,872</u>

See accompanying notes to financial statements.

The Beacon of Downtown Houston (formerly Cathedral Health and Outreach Ministries)

Notes to Financial Statements for the years ended December 31, 2017 and 2016

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Beacon of Downtown Houston (The Beacon) operated as Cathedral Health and Outreach Ministries until April 2017 when the name was formally changed. The Beacon was established by Christ Church Cathedral (the Cathedral) to provide outreach services to the community on behalf of the Cathedral. The Beacon’s Board of Directors is appointed by the Vestry of the Cathedral.

The Beacon provides social and health services to poor and homeless men, women, children and youth living primarily in downtown and mid-town Houston through the following programs:

- Day Center offers hot meals, private shower and lavatory facilities, laundry services, case management, and pastoral outreach and care.
- Beacon Law provides pro-bono legal services to low-income individuals.
- Brigid’s Hope provides support and assistance for homeless women in transition from Texas prisons and jails. This intensive year-long program includes single-room occupancy housing, case management, material support, licensed counseling, volunteer mentor support, and supportive service coordination.
- Coordinated Access is part of The Way Home Coordinated Access system that provides housing assessments and navigation for homeless men and women.

Federal income tax status – The Beacon is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Cash – At times, bank deposits exceed the federally insured limit per depositor per institution.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted, if material, to the present value of their estimated future cash flows. An allowance for uncollectible pledges receivable is provided when it is believed balances may not be collected in full. The Beacon’s policy is to write off receivables against the allowance when management determines the receivable will not be collected. The loss on pledges recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and analysis of individual pledge balances. It is possible that management’s estimate regarding the collectability of the balances will change in the near term resulting in a change in the carrying value of these receivables.

Property with an original cost of \$5,000 or more and an estimated useful life of more than one year is capitalized and reported at cost if purchased or at fair value at the date of gift if donated. Depreciation is provided on a straight-line basis over estimated useful lives of 5 years for furniture, fixtures and equipment and 30 years for leasehold improvements.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include 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.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted revenue. Conditional contributions are recognized in the same manner when the conditions are substantially met.

In-kind contributions are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as materials and facilities are 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.

Government grants and other contracts are recognized in the period in which services are provided or reimbursable expenses are incurred.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – TRANSACTIONS WITH RELATED PARTIES

The Beacon operates in the John S. Dunn Outreach Center (the Dunn Center), which is owned by the Protestant Episcopal Church Council of the Diocese of Texas (Church Corporation).

The Beacon recognized contributed support from the Cathedral and Church Corporation as follows:

	<u>2017</u>	<u>2016</u>
Facility rental and parking provided at no cost	\$ 535,039	\$ 571,681
Financial support	<u>100,000</u>	<u>100,000</u>
Total contributed support	<u>\$ 635,039</u>	<u>\$ 671,681</u>

The Beacon pays the Cathedral for the following expenses:

	<u>2017</u>	<u>2016</u>
Facility operating costs	\$ 207,000	\$ 252,000
Accounting services	<u>60,000</u>	<u>30,000</u>
Total expenses paid to the Cathedral	<u>\$ 267,000</u>	<u>\$ 282,000</u>

NOTE 3 – COMMITMENTS AND CONTINGENCIES

Government grants – The Beacon receives grants from government funding sources that require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by The Beacon with the terms of the contracts. Management believes such disallowances, if any, would not be material to The Beacon’s financial position or changes in net assets.

Property-use commitments – The City of Houston (the City) awarded a grant to The Beacon for approximately \$857,000 for the renovation of the facility and to acquire furniture and fixtures to be located at the facility. Under this agreement, The Beacon agrees to repay the City all or a portion of the respective grant if The Beacon ceases to use the facility as a homeless support center or if The Beacon sells or transfers the facility without written approval of the City. The Beacon must continue to use the facility for the required purposes through 2021. The Beacon has no plans to cease using the facility for the required purpose or to sell or transfer the property.

NOTE 4 – PROPERTY

Property consists of the following:

	<u>2017</u>	<u>2016</u>
Furniture, fixtures, and equipment	\$ 68,275	\$ 68,275
Leasehold improvements	<u>762,868</u>	<u>762,868</u>
Total property, at cost	831,143	831,143
Accumulated depreciation	<u>(69,040)</u>	<u>(29,954)</u>
Property, net	<u>\$ 762,103</u>	<u>\$ 801,189</u>

NOTE 5 – IN-KIND CONTRIBUTIONS

The Beacon recognized the following in-kind contributions:

	<u>2017</u>	<u>2016</u>
Facility costs and parking provided by related parties	\$ 535,039	\$ 571,681
Donated food	48,029	
Cost of donor benefits provided at special event	<u>9,775</u>	<u>9,798</u>
Total in-kind contributions	<u>\$ 592,843</u>	<u>\$ 581,479</u>

Approximately 65% of the hours necessary to operate the Day Center's program services are provided by volunteers. Approximately 24,000 volunteer hours were donated to the Day Center in 2017 and 26,000 in 2016. Additionally, mentor support is provided by volunteers to participants in the Brigid's Hope program. No amount has been recognized in the financial statements for these volunteer services because they do not meet the criteria for recognition under generally accepted accounting principles.

NOTE 6 – CONCENTRATION OF CONTRIBUTIONS

During the year ended December 31, 2017, contributions from one donor comprised approximately \$333,000 or 12% of total contributions. During the year ended December 31, 2016, contributions from four donors comprised approximately \$300,000 or 29% of total contributions.

At December 31, 2017, all pledges receivable are expected to be collected in 2018. At December 31, 2017, 94% of pledges receivable were due from three donors. At December 31, 2016, 92% of pledges receivable were due from three donors.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Future operations	\$ 200,000	\$ 100,000
Beacon Law	134,561	205,910
Day Center	124,365	
Brigid's Hope	<u>1,916</u>	<u> </u>
Total temporarily restricted net assets	<u>\$ 460,842</u>	<u>\$ 305,910</u>

NOTE 8 – RETIREMENT PLAN

The Beacon is a participating employer in a pension plan sponsored and administered by The Church Pension Fund (the Fund). The Fund, a corporation chartered in 1914 by the Legislature of the State of New York, was established by the General Convention of the Episcopal Church. The Fund and its affiliates are official agencies of the Episcopal Church and operate under the Canons of the Episcopal Church.

The Episcopal Church Lay Employees' Retirement Plan (the Plan) is a defined benefit plan providing retirement, death and disability benefits to eligible lay employees of participating employers of the Episcopal Church. The Plan is exempt from federal income taxes and, as a church plan, is exempt from the Employee Retirement Income Security Act of 1974 and is not subject to Pension Benefit Guaranty Corporation requirements.

The assets of the Plan are pooled along with other assets of the Fund solely for investment purposes for the benefit of all participants. The Fund may amend, terminate or modify the terms of the Plan, including the employer assessment rate, at any time, without notice and for any reason. Should the Plan terminate, the Fund has the authority to distribute assets in accordance with the terms of the plan documents.

Lay employees of any domestic diocese, parish, mission or other ecclesiastical organization or body subject to the authority of the Episcopal Church scheduled for 1,000 hours or more of compensated work annually must be provided with a lay pension plan benefit.

Participating employers pay assessments to the Plan on behalf of eligible participants. Assessments for the Plan are equal to 9% of the participants' compensation. Assessments fund benefits are provided by the Plan. Assessments are not held in individual accounts, but are invested in a general fund of pooled contributions for all participants in the Plan.

The Beacon recognizes expenses related to Plan assessments in the period that the related services are provided by the lay employees; such assessments totaled approximately \$99,000 in 2017 and \$77,000 in 2016.

The funding positions of the Plan as of March 31, as reported in the Fund's latest audited financial statements, are summarized below:

	<u>2017</u>	<u>2016</u>
Net assets available for pension benefits after amount designated for assessment deficiencies	\$ 164,626,000	\$ 147,227,000
Less: Actuarial present value of accumulated plan benefit obligations	<u>(200,054,000)</u>	<u>(201,330,000)</u>
Deficit	<u>\$ (35,428,000)</u>	<u>\$ (54,103,000)</u>
Funding percentage	82%	73%

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 30, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.