

**Cathedral Health and Outreach Ministries
(dba The Beacon)
(An Outreach Ministry of Christ Church Cathedral)**

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2016 and 2015

**Cathedral Health and Outreach Ministries
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(An Outreach Ministry of Christ Church Cathedral)**

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Independent Auditors' Report

To the Board of Directors of
Cathedral Health and Outreach Ministries:

Report on the Financial Statements

We have audited the accompanying financial statements of Cathedral Health and Outreach Ministries (dba The Beacon), an outreach ministry of Christ Church Cathedral, which comprise the statements of financial position as of December 31, 2016 and 2015 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

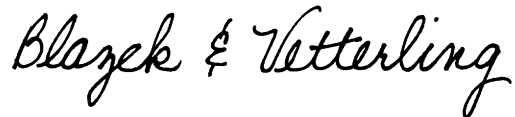
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathedral Health and Outreach Ministries (dba The Beacon) as of December 31, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, The Beacon has elected to change its method of accounting for use of facilities provided by Christ Church Cathedral in 2016. Our opinion is not modified with respect to this matter.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2017, on our consideration of Cathedral Health and Outreach Ministries' (dba The Beacon) 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 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 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 Cathedral Health and Outreach Ministries' (dba The Beacon) internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Blazeck & Vetterling". The script is cursive and fluid, with the ampersand being a simple cross-like symbol.

June 26, 2017

Cathedral Health and Outreach Ministries
(dba The Beacon)
(An Outreach Ministry of Christ Church Cathedral)

Statements of Financial Position as of December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 223,872	\$ 307,754
Government grants and contracts receivable <i>(Note 3)</i>	152,398	420,877
Pledges receivable	297,537	614,149
Prepaid expenses and other assets	15,756	17,882
Due from Christ Church Cathedral	19,228	19,228
Property, net <i>(Note 4)</i>	<u>801,189</u>	<u>457,524</u>
TOTAL ASSETS	<u>\$ 1,509,980</u>	<u>\$ 1,837,414</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 44,094	\$ 30,253
Construction payable	<u> </u>	<u>312,632</u>
Total liabilities	<u>44,094</u>	<u>342,885</u>
Commitments and contingencies <i>(Note 3)</i>		
Net assets:		
Unrestricted	1,159,976	917,636
Temporarily restricted <i>(Note 7)</i>	<u>305,910</u>	<u>576,893</u>
Total net assets	<u>1,465,886</u>	<u>1,494,529</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,509,980</u>	<u>\$ 1,837,414</u>

See accompanying notes to financial statements.

Cathedral Health and Outreach Ministries
(dba The Beacon)
(An Outreach Ministry of Christ Church Cathedral)

Statement of Activities for the year ended December 31, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions (<i>Note 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> </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>	<u> </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> </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> </u>	<u>205,713</u>
Total expenses	<u>2,868,290</u>	<u> </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.

**Cathedral Health and Outreach Ministries
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Statement of Activities for the year ended December 31, 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions (<i>Note 6</i>)	\$ 353,863	\$ 1,089,233	\$ 1,443,096
Government grants and other contracts	584,554		584,554
Special event revenue	381,998	24,750	406,748
Cost of donor benefits provided at special event	(44,896)		(44,896)
Support from related parties (<i>Notes 2 and 5</i>)	<u>326,548</u>	<u> </u>	<u>326,548</u>
Total revenue	1,602,067	1,113,983	2,716,050
Net assets released from restrictions:			
Expended for program purposes	801,239	(801,239)	
Release of time restriction	<u>278,750</u>	<u>(278,750)</u>	<u> </u>
Total	<u>2,682,056</u>	<u>33,994</u>	<u>2,716,050</u>
EXPENSES:			
Program expenses:			
Day Center	1,326,610		1,326,610
Beacon Law	357,541		357,541
Brigid's Hope	212,050		212,050
Coordinated Access	<u>26,873</u>	<u> </u>	<u>26,873</u>
Total program expenses	1,923,074		1,923,074
Management and general	217,091		217,091
Fundraising	<u>271,931</u>	<u> </u>	<u>271,931</u>
Total expenses	<u>2,412,096</u>	<u> </u>	<u>2,412,096</u>
CHANGES IN NET ASSETS	269,960	33,994	303,954
Net assets, beginning of year	<u>647,676</u>	<u>542,899</u>	<u>1,190,575</u>
Net assets, end of year	<u>\$ 917,636</u>	<u>\$ 576,893</u>	<u>\$ 1,494,529</u>

See accompanying notes to financial statements.

**Cathedral Health and Outreach Ministries
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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
Client housing rent			71,447				71,447
Insurance	24,400			687	10,435	844	36,366
Other client assistance	4,339	307	26,974				31,620
Repairs and maintenance	18,863				11,894		30,757
Other supplies	111	16,111	487	307	5,549	7,825	30,390
Depreciation	20,895			588	1,485	723	23,691
Telephone and technology	18,195	544		(33)	1,293	629	20,628
Dues and fees	380	5,330	225		6	10,138	16,079
Training and reference material	315	5,749	548		1,372	390	8,374
Printing and copying	107	421			771	5,567	6,866
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.

Cathedral Health and Outreach Ministries
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Statement of Functional Expenses for the year ended December 31, 2015

<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	\$ 606,981	\$ 253,219	\$ 97,878		\$ 97,497	\$ 167,011	\$ 1,222,586
Occupancy	193,266	34,284	2,142	\$ 21,425	12,854	2,142	266,113
Security services	341,483						341,483
Client laundry, personal hygiene, clothing and food supplies	139,256	35	620				139,911
Professional services	5,050	47,120	17,900		63,749	35,053	168,872
Client housing rent			70,028				70,028
Insurance	15,441	1,257	505	5,448	5,475	802	28,928
Other client assistance	435		21,356				21,791
Repairs and maintenance	14,424				1,277	1,916	17,617
Other supplies	4,448	11,797	516		3,568	38,651	58,980
Telephone and technology	989		103		8,535	12,803	22,430
Printing and copying	141	520	68		2,829	10,967	14,525
Community relations	135				7,096		7,231
Other	<u>4,561</u>	<u>9,309</u>	<u>934</u>		<u>14,211</u>	<u>2,586</u>	<u>31,601</u>
Total expenses	<u>\$ 1,326,610</u>	<u>\$ 357,541</u>	<u>\$ 212,050</u>	<u>\$ 26,873</u>	<u>\$ 217,091</u>	<u>\$ 271,931</u>	2,412,096
Cost of donor benefits provided at special event							<u>44,896</u>
Total							<u>\$ 2,456,992</u>

See accompanying notes to financial statements.

Cathedral Health and Outreach Ministries
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Statements of Cash Flows for the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (28,643)	\$ 303,954
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	23,691	3,602
Changes in operating assets and liabilities:		
Government grants and contracts receivable	268,479	(420,877)
Pledges receivable	316,612	89,206
Prepaid expenses and other assets	2,126	4,164
Due from Christ Church Cathedral		175,000
Accounts and construction payable	<u>(298,791)</u>	<u>(29,395)</u>
Net cash provided by operating activities	<u>283,474</u>	<u>125,654</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(367,356)</u>	<u>(137,844)</u>
NET CHANGE IN CASH	(83,882)	(12,190)
Cash, beginning of year	<u>307,754</u>	<u>319,944</u>
Cash, end of year	<u><u>\$ 223,872</u></u>	<u><u>\$ 307,754</u></u>

See accompanying notes to financial statements.

**Cathedral Health and Outreach Ministries
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Notes to Financial Statements for the years ended December 31, 2016 and 2015

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Cathedral Health and Outreach Ministries (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 (formerly known as Cathedral Justice Project) 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. At December 31, 2016, all pledges receivable are expected to be collected in 2017. At December 31, 2016, 92% of pledges receivable were due from three donors.

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 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 – SUPPORT FROM 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 Corp.). Beginning in 2016, The Beacon began recording the estimated fair value of the use of facility space provided by Church Corp. which was approximately \$440,000. This amount is reflected in 2016 as support and is included in facility operating costs.

The Beacon routinely engages in transactions with the Cathedral and Church Corp. as follows:

	<u>2016</u>	<u>2015</u>
Facility operating costs	\$692,000	\$157,000
In-kind parking	\$132,000	\$156,000
Accounting services	\$30,000	\$26,000
Contribution	\$100,000	\$171,000

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>2016</u>	<u>2015</u>
Furniture, fixtures, and equipment	\$ 68,275	\$ 41,492
Leasehold improvements	762,868	
Construction in progress	<u> </u>	<u>422,296</u>
Total property, at cost	831,143	463,788
Accumulated depreciation	<u>(29,954)</u>	<u>(6,264)</u>
Property, net	<u>\$ 801,189</u>	<u>\$ 457,524</u>

NOTE 5 – IN-KIND CONTRIBUTIONS

The Beacon recognized the following in-kind contributions:

	<u>2016</u>	<u>2015</u>
Facility costs and parking provided by related parties	\$ 571,681	\$ 155,548
Cost of donor benefits provided at special event	<u>9,798</u>	<u>37,919</u>
Total in-kind contributions	<u>\$ 581,479</u>	<u>\$ 193,467</u>

Approximately 65% of the hours necessary to operate the Day Center's program services are provided by volunteers. Approximately 26,000 volunteer hours were donated to the Day Center in 2016 and 28,000 in 2015. 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, 2016, contributions from four foundations comprised approximately \$300,000 or 29% of total contributions. During the year ended December 31, 2015, contributions from five foundations comprised approximately \$827,000 or 57% of total contributions.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Beacon Law	\$ 205,910	\$ 395,643
Future operations	100,000	176,250
Day Center	<u> </u>	<u>5,000</u>
Total temporarily restricted net assets	<u>\$ 305,910</u>	<u>\$ 576,893</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 \$77,000 in 2016 and \$66,000 in 2015.

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

	<u>2016</u>	<u>2015</u>
Net assets available for pension benefits after amount designated for assessment deficiencies	\$ 147,227,000	\$ 145,468,000
Less: Actuarial present value of accumulated plan benefit obligations	<u>(201,330,000)</u>	<u>(200,406,000)</u>
Deficit	<u>\$ (54,103,000)</u>	<u>\$ (54,938,000)</u>
Funding percentage	73%	73%

NOTE 9 – SUBSEQUENT EVENTS

Effective April 3, 2017, Cathedral Health and Outreach Ministries formally changed their name to The Beacon of Downtown Houston.

Management has evaluated subsequent events through June 26, 2017, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.