

**Katy Christian Ministries**

Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2015 and 2014

# Katy Christian Ministries

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## Independent Auditors' Report

To the Board of Directors of  
Katy Christian Ministries:

We have audited the accompanying financial statements of Katy Christian Ministries, which comprise the statements of financial position as of December 31, 2015 and 2014 and the related statements of activities, of cash flows, and of functional expenses 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. 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.

### Basis for Qualified Opinion

Katy Christian Ministries obtains the majority of items distributed through its food pantry by in-kind donations. We were unable to obtain audit evidence regarding the value of food donations recognized of \$574,557 and \$425,812 for the years ended December 31, 2015 and 2014, respectively, and the related food pantry expense.

## **Qualified Opinion**

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Katy Christian Ministries as of December 31, 2015 and 2014 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.

*Blazek & Vetterling*

June 27, 2016

## Katy Christian Ministries

Statements of Financial Position as of December 31, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 223,176	\$ 139,068
Government grants receivable	45,104	18,197
Prepaid expenses and other assets	16,029	7,636
Resale shop inventory	30,146	42,447
Property, net <i>(Note 2)</i>	<u>25,921</u>	<u>21,697</u>
TOTAL ASSETS	<u>\$ 340,376</u>	<u>\$ 229,045</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 29,621	\$ 29,472
Deferred revenue	10,000	10,000
Notes payable <i>(Note 3)</i>	<u>11,395</u>	<u>58,709</u>
Total liabilities	<u>51,016</u>	<u>98,181</u>
Net assets:		
Unrestricted	280,404	69,195
Temporarily restricted <i>(Note 4)</i>	<u>8,956</u>	<u>61,669</u>
Total net assets	<u>289,360</u>	<u>130,864</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 340,376</u>	<u>\$ 229,045</u>

*See accompanying notes to financial statements.*

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## Katy Christian Ministries

Statement of Activities for the year ended December 31, 2015

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUE:</b>			
Resale shop revenues:			
In-kind contributions of shop inventory <i>(Note 7)</i>	\$ 570,228		\$ 570,228
In-kind cost of goods sold	(582,530)		(582,530)
Sales of donated items	<u>570,229</u>		<u>570,229</u>
Net revenue from resale shops	557,927		557,927
Contributions	180,107	\$ 125,894	306,001
In-kind contributions <i>(Note 7)</i>	39,352	24,095	63,447
In-kind food donations <i>(Note 7)</i>	574,557		574,557
Special event	119,006		119,006
Cost of direct donor benefits	(30,686)		(30,686)
Government grants	221,880		221,880
Other revenue	<u>10,054</u>		<u>10,054</u>
Total revenue	1,672,197	149,989	1,822,186
Net assets released from restrictions:			
Program expenditures	<u>202,702</u>	<u>(202,702)</u>	
Total	<u>1,874,899</u>	<u>(52,713)</u>	<u>1,822,186</u>
<b>EXPENSES:</b>			
Program services:			
Food Pantry	665,136		665,136
Resale Shop	357,468		357,468
Social Services	169,815		169,815
Domestic Abuse Center	147,794		147,794
Sexual Abuse Center	<u>121,030</u>		<u>121,030</u>
Total program services	1,461,243		1,461,243
Management and general	168,688		168,688
Fundraising	<u>33,759</u>		<u>33,759</u>
Total expenses	<u>1,663,690</u>		<u>1,663,690</u>
CHANGES IN NET ASSETS	211,209	(52,713)	158,496
Net assets, beginning of year	<u>69,195</u>	<u>61,669</u>	<u>130,864</u>
Net assets, end of year	<u>\$ 280,404</u>	<u>\$ 8,956</u>	<u>\$ 289,360</u>

*See accompanying notes to financial statements.*

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## Katy Christian Ministries

Statement of Activities for the year ended December 31, 2014

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUE:</b>			
Resale shop revenues:			
In-kind contributions of shop inventory <i>(Note 7)</i>	\$ 530,523		\$ 530,523
In-kind cost of goods sold	(526,160)		(526,160)
Sales of donated items	<u>577,207</u>		<u>577,207</u>
Net revenue from resale shops	581,570		581,570
Contributions	211,732	\$ 50,090	261,822
In-kind contributions <i>(Note 7)</i>	77,761		77,761
In-kind food donations <i>(Note 7)</i>	425,812		425,812
Special event	54,857		54,857
Cost of direct donor benefits	(1,494)		(1,494)
Government grants	150,915		150,915
Gain on sale of property <i>(Note 2)</i>	<u>373,374</u>		<u>373,374</u>
Total revenue	1,874,527	50,090	1,924,617
Net assets released from restrictions:			
Program expenditures	<u>30,706</u>	<u>(30,706)</u>	
Total	<u>1,905,233</u>	<u>19,384</u>	<u>1,924,617</u>
<b>EXPENSES:</b>			
Program services:			
Food Pantry	513,820		513,820
Resale Shop	358,721		358,721
Social Services	157,909		157,909
Domestic Abuse Center	104,732		104,732
Sexual Abuse Center	<u>110,129</u>		<u>110,129</u>
Total program services	1,245,311		1,245,311
Management and general	304,245		304,245
Fundraising	<u>49,939</u>		<u>49,939</u>
Total expenses	<u>1,599,495</u>		<u>1,599,495</u>
CHANGES IN NET ASSETS	305,738	19,384	325,122
Net assets, beginning of year	<u>(236,543)</u>	<u>42,285</u>	<u>(194,258)</u>
Net assets, end of year	<u>\$ 69,195</u>	<u>\$ 61,669</u>	<u>\$ 130,864</u>

*See accompanying notes to financial statements.*

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## Katy Christian Ministries

### Statements of Cash Flows for the years ended December 31, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 158,496	\$ 325,122
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	9,437	61,430
Gain on sale of property		(373,374)
Changes in operating assets and liabilities:		
Government grants receivable	(26,907)	3,746
Prepaid expenses and other assets	(8,393)	(2,853)
Resale shop inventory	12,301	(4,363)
Accounts payable and accrued liabilities	149	(86,891)
Deferred revenue	<u>          </u>	<u>10,000</u>
Net cash provided (used) by operating activities	<u>145,083</u>	<u>(67,183)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase property and equipment	(13,661)	
Proceeds from sale of property	<u>          </u>	<u>159,294</u>
Net cash provided (used) by investing activities	<u>(13,661)</u>	<u>159,294</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on notes payable	(34,776)	15,129
Principal payments on capital lease	<u>(12,538)</u>	<u>(23,567)</u>
Net cash used by financing activities	<u>(47,314)</u>	<u>(8,438)</u>
<b>NET CHANGE IN CASH</b>	<b>84,108</b>	<b>83,673</b>
Cash, beginning of year	<u>139,068</u>	<u>55,395</u>
Cash, end of year	<u>\$ 223,176</u>	<u>\$ 139,068</u>

#### NON-CASH INVESTING AND FINANCING ACTIVITIES:

In 2014, KCM repaid a note payable of \$1,471,356 and lease settlement expenses of \$350,000 out of proceeds from the sale of property.

*See accompanying notes to financial statements.*

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## Katy Christian Ministries

Statement of Functional Expenses for the year ended December 31, 2015

	FOOD PANTRY	RESALE SHOP	SOCIAL SERVICES	DOMESTIC ABUSE CENTER	SEXUAL ABUSE CENTER	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Direct assistance	\$ 592,685		\$ 65,137	\$ 14,329	\$ 10,768			\$ 682,919
Salaries and related benefits	33,428	\$ 231,476	79,896	103,404	83,980	\$ 103,648	\$ 25,343	661,175
Rent	23,220	60,960	7,740	3,870	3,870	7,740		107,400
Professional services	3,892		3,892	3,892	3,892	32,399		47,967
Supplies	1,392	6,281	2,220	4,175	2,281	2,901	5,272	24,522
Insurance	1,336	8,923	2,832	2,251	2,087	1,984		19,413
Utilities	2,821	7,579	1,399	1,153	1,156	2,055		16,163
Telephone	1,673	1,606	1,673	3,997	5,095	1,797		15,841
Computer	2,156	2,004	2,329	2,976	2,151	2,678		14,294
Auto and truck	1,352	10,887		27				12,266
Trash		11,605						11,605
Depreciation	378	4,579	903	1,169	949	1,171	288	9,437
Bank and credit card fees		7,381				165	1,096	8,642
Staff training				3,296	1,974	786		6,056
Repairs and maintenance	481	2,347	81	286	270	2,229		5,694
Mileage reimbursement	161		753	1,838	1,571	494		4,817
Rental – storage		655	815	815	815	815		3,915
Security	117	164	47	47	47	46	1,760	2,228
Interest						1,229		1,229
Other	44	1,021	98	269	124	6,551		8,107
<b>Total expenses</b>	<b>\$ 665,136</b>	<b>\$ 357,468</b>	<b>\$ 169,815</b>	<b>\$ 147,794</b>	<b>\$ 121,030</b>	<b>\$ 168,688</b>	<b>\$ 33,759</b>	<b>1,663,690</b>
In-kind cost of goods sold								582,530
Direct donor benefits for special events								30,686
<b>Total</b>								<b>\$ 2,276,906</b>

See accompanying notes to financial statements.

## Katy Christian Ministries

Statement of Functional Expenses for the year ended December 31, 2014

	FOOD PANTRY	RESALE SHOP	SOCIAL SERVICES	DOMESTIC ABUSE CENTER	SEXUAL ABUSE CENTER	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Direct assistance	\$ 432,233		\$ 37,713	\$ 554				\$ 470,500
Salaries and related benefits	43,633	\$ 205,698	74,799	62,332	\$ 68,566	\$ 137,131	\$ 31,166	623,325
Rent	4,964	59,568	4,964			7,943	1,986	79,425
Professional services	343	1,788	343	810	810	69,303		73,397
Supplies	1,701	1,580	1,743	3,010	1,700	2,157	6,949	18,840
Insurance	3,923	15,458	6,063	4,534	3,894	5,842		39,714
Utilities	3,447	16,366	4,420	3,506	3,387	3,549		34,675
Telephone	2,205	3,738	2,984	5,102	4,976	4,130		23,135
Computer	1,918	1,649	2,135	1,521	1,396	2,555		11,174
Auto and truck	60	7,422	103				85	7,670
Trash	1,775	16,079	1,776	1,701	1,021	1,846		24,198
Depreciation	5,929	4,677	10,165	8,471	9,318	18,635	4,235	61,430
Bank and credit card fees	35	8,349				1,256	758	10,398
Staff training				1,964	2,711			4,675
Repairs and maintenance	1,640	3,354	506	447	460	768		7,175
Mileage reimbursement			114	622	1,839			2,575
Rental – storage	80	215	45	45	45	45		475
Security	225		225	225	225	254		1,154
Interest	9,709	10,866	9,709	9,709	9,709	48,126	4,760	102,588
Other		1,914	102	179	72	705		2,972
<b>Total expenses</b>	<b>\$ 513,820</b>	<b>\$ 358,721</b>	<b>\$ 157,909</b>	<b>\$ 104,732</b>	<b>\$ 110,129</b>	<b>\$ 304,245</b>	<b>\$ 49,939</b>	<b>1,599,495</b>
In-kind cost of goods sold								526,160
Direct donor benefits for special events								1,494
<b>Total</b>								<b>\$ 2,127,149</b>

See accompanying notes to financial statements.

## Katy Christian Ministries

Notes to Financial Statements for the years ended December 31, 2015 and 2014

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### NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Katy Christian Ministries (KCM) is a nonprofit corporation supported by member churches in the Katy area to provide services to those in need in the Katy/West Houston area. Its mission is to address the needs of families and individuals who find themselves in temporary crisis and in need of assistance to maintain self-sufficiency and avoid homelessness.

KCM provides Christ-centered services through the following programs:

- The *Food Pantry* supplies non-perishable food, personal care items, and fresh produce from yard gardeners, local farmers and the KCM Community Garden.
- *Resale Shop* sells donated goods to provide a low cost source of clothing, furniture, books, toys, and household goods to the community and provides certain goods free of charge to individuals and families in KCM programs.
- *Social Services* provides referrals to various support and services in the community plus direct assistance including rent/mortgage assistance, utilities, and school supplies.
- The *Domestic Abuse Center* provides emergency shelter referrals or placement; accompaniment to hospitals, courts and law enforcement agencies; and various related support and advocacy services.
- The *Sexual Abuse Center* provides counseling and support services to those affected by sexual abuse.

Federal income tax status – KCM 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)(2).

Resale shop inventory is carried at the lower of cost or market. The majority of the items sold in KCM resale shops are received as in-kind contributions from the general public. The fair value of these contributions is based on the estimated sale price of each item and is recognized in the financial statements as in-kind contributions.

Food pantry in-kind contributions – The estimated fair value of food donated is based on an average fair value per meal determined by weighing the amount of food donated and converting the number of pounds to the number of meals using a factor of 1.2 pounds per meal. The value of the meals is calculated at a standard per meal rate determined by a national food bank.

Property is reported at cost if purchased or at fair value at the date of gift if donated. Generally, acquisitions of property and equipment in excess of \$500 are capitalized. Depreciation is provided using the straight-line method over estimated useful lives of 5 to 40 years.

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 future time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Resale shop sales of donated inventory are recognized as revenue at the time of sale.

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 support.

Donated materials and services – Donated materials 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.

A substantial number of volunteers have contributed significant time in connection with programs, administration, and fundraising for which no amount has been recorded in the financial statements because the donated services did not meet the criteria for recognition under generally accepted accounting principles.

Government grants revenue is recognized when the related services are provided.

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 reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

## **NOTE 2 – PROPERTY**

In November 2014, KCM sold its property located at 5011 E. 5<sup>th</sup> Street in which KCM conducted its social services, pantry and administrative functions for \$2,100,000. At closing, KCM repaid the related note payable of \$1.5 million and other liens attached to the property, including approximately \$38,000 due to the State of Texas for past due sales taxes and penalties, and \$350,000 in settlement of the lease obligation on its former Mason Road resale shop.

At December 31, 2015 and 2014, property consists of various office equipment, net of accumulated depreciation of approximately \$26,000 and \$22,000 respectively.

## **NOTE 3 – NOTES PAYABLE**

Notes payable are comprised of the following:

	<u>2015</u>	<u>2014</u>
\$50,000 revolving line of credit with a bank, interest at 3.25%, monthly minimum payments the greater of 3% of balance or \$150.	\$ 11,395	\$ 46,171
Capital lease for phone system.	<u>                    </u>	<u>12,538</u>
Total notes payable	<u>\$ 11,395</u>	<u>\$ 58,709</u>

#### NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Food Pantry		\$ 52,008
School supplies	<u>\$ 8,956</u>	<u>9,661</u>
Total temporarily restricted net assets	<u>\$ 8,956</u>	<u>\$ 61,669</u>

#### NOTE 5 – CONDITIONAL PROMISES TO GIVE

In 2015 and 2014, KCM received restricted grants totaling \$40,000 and \$44,000, respectively, that contained donor conditions contingent upon achieving certain operational targets. These grants represent conditional promises to give and are not recorded as contribution revenue until the donor conditions are met. KCM recognized \$51,600 and \$18,400 in revenue during 2015 and 2014, respectively.

#### NOTE 6 – COMMITMENTS

Lease commitments – KCM leases office and retail space and equipment under noncancelable operating lease agreements. Related lease expense of approximately \$112,000 and \$81,000 was recognized during 2015 and 2014, respectively. Future minimum lease payments at December 31, 2015 are due as follows:

2016	\$ 97,151
2017	102,846
2018	105,852
2019	106,854
2020	109,048
2021 and thereafter	<u>135,373</u>
Total	<u>\$ 657,124</u>

In February 2016, KCM entered into a lease agreement which expanded their existing office and retail space resulting in an additional commitment of \$575,160 through the term of the lease agreement ending in March 2022.

#### NOTE 7 – IN-KIND CONTRIBUTIONS

	<u>2015</u>	<u>2014</u>
Food Pantry	\$ 574,557	\$ 425,812
Resale Shop inventory	570,228	530,523
Direct assistance food/clothing	63,447	
Professional services – management and general	<u>                    </u>	<u>77,761</u>
Total	<u>\$ 1,208,232</u>	<u>\$ 1,034,096</u>

## **NOTE 8 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 27, 2016, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than the lease extension described in Note 6, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

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