Katy Christian Ministries

Financial Statements
and Independent Auditors' Report
for the year ended December 31, 2013

Katy Christian Ministries

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Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

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 statement of financial position as of December 31, 2013 and the related statements of activities, of cash flows, and of functional expenses 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.

Auditors' 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 our audit 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 – A physical count was not taken of the resale shop inventory at December 31, 2012 and Katy Christian Ministries was unable to appropriately value inventory by other means; therefore, we were unable to obtain audit evidence about inventory quantities and values at December 31, 2012.

Qualified Opinion – In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Katy Christian Ministries as of December 31, 2013 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.

Blazek & Vetterling

February 2, 2015

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Katy Christian Ministries

Statement of Financial Position as of December 31, 2013

ASSETS

Cash	$ 55,395
Government grants receivable	21,943
Prepaid expenses and other assets	4,783
Resale shop inventory *(Note 2)*	38,084
Property held for sale, net *(Note 3)*	1,653,912
Property and equipment, net (*Note 4)*	36,491
TOTAL ASSETS	$ 1,810,608

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued liabilities	$ 78,583
Sales tax payable *(Notes 2 and 8)*	37,780
Lease settlement obligation *(Notes 2 and 8)*	350,000
Note payable on real property *(Notes 5 and 8)*	1,471,356
Notes payable *(Note 5)*	67,147
Total liabilities	2,004,866
Net assets:	
Unrestricted *(Note 7)*	(236,543)
Temporarily restricted *(Note 6)*	42,285
Total net assets	(194,258)
TOTAL LIABILITIES AND NET ASSETS	$ 1,810,608

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Activities for the year ended December 31, 2013

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Resale shop revenues *(Note 2)*:			
In-kind contributions of shop inventory	$ 1,724,978		$ 1,724,978
In-kind cost of goods sold	(1,680,194)		(1,680,194)
Sales of donated items	1,979,118		1,979,118
Loss on cancellation of lease commitment	(350,000)		(350,000)
Net revenue from resale shops	1,673,902		1,673,902
Contributions	289,812	$ 161,482	451,294
Special event	85,056		85,056
Cost of direct donor benefits	(11,987)		(11,987)
Government grants	72,411		72,411
Total revenue	2,109,194	161,482	2,270,676
Net assets released from restrictions:			
Program expenditures	119,197	(119,197)	
Expiration of time restrictions	9,851	(9,851)	
Total	2,238,242	32,434	2,270,676
EXPENSES:			
Program services:			
Resale Shop	1,601,375		1,601,375
Social Services	313,619		313,619
Food Pantry	176,211		176,211
Domestic Abuse Center	128,808		128,808
Sexual Abuse Center	127,543		127,543
Total program services	2,347,556		2,347,556
Management and general	516,308		516,308
Fundraising	52,835		52,835
Total expenses	2,916,699		2,916,699
CHANGES IN NET ASSETS	(678,457)	32,434	(646,023)
Net assets, beginning of year (*Note 2)*	441,914	9,851	451,765
Net assets, end of year	$ (236,543)	$ 42,285	$ (194,258)

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Cash Flows for the year ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	$ (646,023)
Adjustments to reconcile changes in net assets to net cash used by operating activities:	
Depreciation	80,250
Changes in operating assets and liabilities:	
Government grants receivable	20,566
Prepaid expenses and other assets	87,511
Resale shop inventory	(38,084)
Accounts payable and accrued liabilities	100,851
Lease settlement obligation	350,000
Net cash used by operating activities	(44,929)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from line of credit	48,745
Principal payments on notes payable	(32,020)
Net cash provided by financing activities	16,725
NET CHANGE IN CASH	(28,204)
Cash, beginning of year	83,599
Cash, end of year	$ 55,395

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Functional Expenses for the year ended December 31, 2013

	RESALE SHOP	SOCIAL SERVICES	FOOD PANTRY	DOMESTIC ABUSE CENTER	SEXUAL ABUSE CENTER	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related benefits	$ 739,456	$ 141,060	$ 90,496	$ 76,970	$ 82,979	$ 351,946	$ 40,063	$ 1,522,970
Rent	570,694	6,593	24,802					602,089
Insurance	78,045	15,559	12,575	10,208	6,240	38,245		160,872
Direct assistance		97,135	8,537	1,756	229			107,657
Interest		16,547	10,615	9,029	9,734	41,284	4,699	91,908
Depreciation	4,677	13,606	8,729	7,424	8,004	33,947	3,864	80,251
Utilities	51,357	5,941	4,547	3,958	4,105	2,180	2,230	74,318
Supplies	29,110	2,698	1,255	2,458	1,252	3,358		40,131
Trash	29,217	1,193	1,193	1,193	1,193	2,514		36,503
Repairs and maintenance	13,421	2,788	5,250	2,476	2,264	7,102		33,301
Bank and credit card fees	25,566					4,573		30,139
Telephone	15,544	2,498	1,665	1,110	1,110	4,718		26,645
Auto and truck	23,171		40					23,211
Professional services	4,940			3,350	3,350	7,063		18,703
Computer	2,696	4,016	2,259	2,408	2,066	4,991		18,436
Postage and printing	1,650	1,633	1,577	2,732	1,645	3,097	1,957	14,291
Janitorial	92	1,773	1,773	1,773	1,773	2,573		9,757
Sales tax	4,809							4,809
Staff training			10	1,571	1,048	1,786		4,415
Dues and subscriptions	35		465		180	2,307		2,987
Security	890	376	376	376	350	481		2,849
Taxes – other	2,652							2,652
Rental – others	1,580					307		1,887
Advertising	543	188				619		1,350
Meetings	64	15	11	16	21	1,182		1,309
Uniforms and clothing	1,091							1,091
Other	75		36			2,035	22	2,168
Total expenses	$ 1,601,375	$ 313,619	$ 176,211	$ 128,808	$ 127,543	$ 516,308	$ 52,835	$ 2,916,699

See accompanying notes to financial statements.

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:

- *Resale Shop* – KCM 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 *Food Pantry* supplies non-perishable food, personal care items, and fresh produce from yard gardeners, local farmers and the KCM Community Garden.
- 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). KCM files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. KCM believes it is no longer subject to examinations of returns for tax years ended before December 31, 2011.

Resale shop inventory is carried at the lower of cost or market. The majority of the items sold in the 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.

Property held for sale is reported at the lower of cost or market. This property is KCM's main facility located at 5011 E. 5th Street in Katy. The property was sold subsequent to year end (see Note 8).

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.

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.

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

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.

NOTE 2 – RESALE SHOPS

Scope limitation related to shop inventory – KCM did not perform a physical count of its resale shops inventory as of December 31, 2012; therefore, cost of donated goods sold could not be accurately determined for the year ended December 31, 2013. Similarly, the amount of inventory seized by the lessor has not been determined.

In 2013, KCM sold donated goods as follows:

Mason Road resale shop	$ 1,247,131
1st Street resale shop	372,109
East Third Street donation center	92,596
Third party sales	267,282
Total	$ 1,979,118

Closure of Mason Road resale shop – In October 2013, the Mason Road resale shop was closed and the fixtures and inventory of the shop were seized by the lessor of the space. Operating expenses in 2013 related to the discontinued operations totaled $1,418,640, including settlement with the lessor. The lessor initiated legal proceedings against KCM in relation to the unexpired lease; see Note 8 related to subsequent settlement of this claim.

Unpaid sales taxes – The State of Texas filed a lien against KCM for unremitted sales taxes from its resale shops plus related penalties. See Note 8 regarding subsequent payment of this amount.

NOTE 3 – PROPERTY HELD FOR SALE

Property held for sale at December 31, 2013 consists of the following:

Land and improvements	$ 167,460
Buildings	1,984,184
Total property, at cost	2,151,644
Accumulated depreciation	(497,732)
Property, net	$ 1,653,912

See Note 8 relating to subsequent sale of this property.

NOTE 4 – PROPERTY

At December 31, 2013, property consists of various office equipment net of accumulated depreciation of $34,000.

NOTE 5 – NOTES PAYABLE

Notes payable are comprised of the following:

Note payable to a bank, $1,584,000 issued September 30, 2009, interest at 6.75%; due October 2014, collateralized by real property and improvements. See Note 8 relating to subsequent repayment of this note.	$ 1,471,356
$50,000 revolving line of credit with a bank, interest at 3.25%, monthly minimum payments the greater of 3% of balance or $150.	48,745
Capital lease for phone system	18,402
Total notes payable	$ 1,538,503

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2013 are available for the following purposes:

Food Pantry	$ 30,848
Rent and mortgage assistance	11,437
Total temporarily restricted net assets	$ 42,285

NOTE 7 – MANAGEMENT'S PLANS

At December 31, 2013, KCM's liabilities exceed its assets. Management believes that it can meet its existing obligations through the sale of its building (see Note 8) and that future operations will be scaled to balance revenue and expense.

NOTE 8 – SUBSEQUENT EVENTS

In November 2014, KCM entered into an agreement to sell its property located at 5011 E. 5th Street in which KCM conducted its social services, pantry and administrative functions. The sale was finalized on November 12, 2014, with a sale price of $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.

Management has evaluated subsequent events through February 2, 2015, 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.