

**Katy Christian Ministries**

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

## 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, 2014 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

Katy Christian Ministries obtains the majority of items distributed through its food pantry by in-kind donation. Due to circumstances related to the nature and timing of the auditors' work, we were unable to obtain audit evidence regarding the value of food donations recognized of \$425,812 and \$425,812 of 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 in the first paragraph present fairly, in all material respects, the financial position of Katy Christian Ministries as of December 31, 2014 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.

### **Change in Accounting Principle**

As discussed in Note 2 to the financial statements, in 2014 Katy Christian Ministries changed its method of accounting for in-kind donations to its food pantry. Our opinion is not modified with respect to this matter.

*Blazek & Vetterling*

August 28, 2015

## Katy Christian Ministries

Statement of Financial Position as of December 31, 2014

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### ASSETS

Cash	\$ 139,068
Government grants receivable	18,197
Prepaid expenses and other assets	7,636
Resale shop inventory	42,447
Property, net ( <i>Note 3</i> )	<u>21,697</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 229,045</u></b>

### LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued liabilities	\$ 29,472
Deferred revenue	10,000
Notes payable ( <i>Note 4</i> )	<u>58,709</u>
Total liabilities	<u>98,181</u>
Net assets:	
Unrestricted	69,195
Temporarily restricted ( <i>Note 5</i> )	<u>61,669</u>
Total net assets	<u>130,864</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 229,045</u></b>

*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>
REVENUE:			
Resale shop revenues:			
In-kind contributions of shop inventory	\$ 608,284		\$ 608,284
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	659,331		659,331
Contributions	211,732	\$ 50,090	261,822
Food donations ( <i>Note 2</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	<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>
EXPENSES:			
Program services:			
Food Pantry	513,820		513,820
Resale Shop	358,721		358,721
Social Services	157,909		157,909
Sexual Abuse Center	110,129		110,129
Domestic Abuse Center	<u>104,732</u>		<u>104,732</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

Statement of Cash Flows for the year ended December 31, 2014

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### CASH FLOWS FROM OPERATING ACTIVITIES:

Changes in net assets	\$ 325,122
Adjustments to reconcile changes in net assets to net cash used by operating activities:	
Depreciation	61,430
Gain on sale of property	(373,374)
Changes in operating assets and liabilities:	
Government grants receivable	3,746
Prepaid expenses and other assets	(2,853)
Resale shop inventory	(4,363)
Accounts payable, accrued liabilities and sales tax payable	(86,891)
Deferred revenue	<u>10,000</u>
Net cash used by operating activities	<u>(67,183)</u>

### CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of property	<u>159,294</u>
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### CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from notes payable	15,129
Payments on notes payable	<u>(23,567)</u>
Net cash used by financing activities	<u>(8,438)</u>

NET CHANGE IN CASH 83,673

Cash, beginning of year 55,395

Cash, end of year \$ 139,068

### NON-CASH INVESTING AND FINANCING ACTIVITIES:

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, 2014

	FOOD PANTRY	RESALE SHOP	SOCIAL SERVICES	SEXUAL ABUSE CENTER	DOMESTIC ABUSE CENTER	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related benefits	\$ 43,633	\$ 205,698	\$ 74,799	\$ 68,566	\$ 62,332	\$ 137,131	\$ 31,166	\$ 623,325
Direct assistance	432,233		37,713		554			470,500
Interest	9,709	10,866	9,709	9,709	9,709	48,126	4,760	102,588
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
Depreciation	5,929	4,677	10,165	9,318	8,471	18,635	4,235	61,430
Insurance	3,923	15,458	6,063	3,894	4,534	5,842		39,714
Utilities	3,447	16,366	4,420	3,387	3,506	3,549		34,675
Trash	1,775	16,079	1,776	1,021	1,701	1,846		24,198
Telephone	2,205	3,738	2,984	4,976	5,102	4,130		23,135
Supplies	1,701	1,580	1,743	1,700	3,010	2,157	6,949	18,840
Computer	1,918	1,649	2,135	1,396	1,521	2,555		11,174
Bank and credit card fees	35	8,349				1,256	758	10,398
Auto and truck	60	7,422	103				85	7,670
Repairs and maintenance	1,640	3,354	506	460	447	768		7,175
Staff training				2,711	1,964			4,675
Security	225		225	225	225	254		1,154
Other	80	2,129	261	1,956	846	750		6,022
Total expenses	<u>\$ 513,820</u>	<u>\$ 358,721</u>	<u>\$ 157,909</u>	<u>\$ 110,129</u>	<u>\$ 104,732</u>	<u>\$ 304,245</u>	<u>\$ 49,939</u>	1,599,495
In-kind cost of goods sold								<u>526,160</u>
Total								<u>\$ 2,125,655</u>

See accompanying notes to financial statements.

## Katy Christian Ministries

Notes to Financial Statements for the year ended December 31, 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 *Sexual Abuse Center* provides counseling and support services to those affected by sexual abuse.
- 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.

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.

Food pantry items – 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 reported at a standard per meal rate determined by a national food bank. Prior to January 1, 2014, donated food was not recognized in the financial statements (see Note 2).

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.

## **NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE**

KCM obtains the majority of items distributed through its food pantry from the Houston Food Bank and local grocery stores. Prior to January 1, 2014, KCM did not report the fair value of donated food as contribution revenue and food pantry expense as required by generally accepted accounting principles (GAAP). Effective January 1, 2014, KCM changed its method of accounting to report these donations at fair value as required by GAAP.

## **NOTE 3 – 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, 2014, property consists of various office equipment net of accumulated depreciation of approximately \$22,000.

**NOTE 4 – NOTES PAYABLE**

Notes payable at December 31, 2014 are comprised of the following:

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

**NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at December 31, 2014 are available for the following purposes:

Food Pantry	\$ 52,008
Other	<u>9,661</u>
Total temporarily restricted net assets	<u>\$ 61,669</u>

**NOTE 6 – CONDITIONAL PROMISES TO GIVE**

During 2014, KCM received a restricted grant totaling \$44,000 that contained donor conditions contingent upon achieving certain operational targets. Since this grant represents a conditional promise to give, it is not recorded as contribution revenue until the donor conditions are met.

**NOTE 7 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through August 28, 2015, 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.

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