

**Katy Christian Ministries**

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

# 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, 2016 and 2015 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 for the year ended December 31, 2015, 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, 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.

*Blazek & Vetterling*

April 25, 2017

## Katy Christian Ministries

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

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	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 262,460	\$ 223,176
Government grants receivable	79,501	45,104
Prepaid expenses and other assets	7,395	16,029
Food pantry inventory	83,077	
Resale shop inventory	36,547	30,146
Property, net ( <i>Note 2</i> )	<u>49,329</u>	<u>25,921</u>
 TOTAL ASSETS	 <u>\$ 518,309</u>	 <u>\$ 340,376</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 58,419	\$ 29,621
Deferred revenue	12,016	10,000
Notes payable ( <i>Note 3</i> )	<u>          </u>	<u>11,395</u>
Total liabilities	<u>70,435</u>	<u>51,016</u>
Net assets:		
Unrestricted	372,632	280,404
Temporarily restricted ( <i>Note 4</i> )	<u>75,242</u>	<u>8,956</u>
Total net assets	<u>447,874</u>	<u>289,360</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 518,309</u>	 <u>\$ 340,376</u>

*See accompanying notes to financial statements.*

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## Katy Christian Ministries

Statement of Activities for the year ended December 31, 2016

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	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUE:</b>			
Resale shop revenues:			
In-kind contributions of resale shop inventory ( <i>Note 8</i> )	\$ 627,789		\$ 627,789
In-kind cost of goods sold	(621,388)		(621,388)
Sales of donated items	<u>627,791</u>		<u>627,791</u>
Net revenue from resale shops	634,192		634,192
Contributions ( <i>Note 6</i> )	207,472	\$ 238,623	446,095
In-kind food donations ( <i>Note 8</i> )	743,588		743,588
Other in-kind contributions ( <i>Note 8</i> )	48,045		48,045
Special event	112,666		112,666
Cost of direct donor benefits	(15,603)		(15,603)
Government grants ( <i>Note 5</i> )	269,011		269,011
Other revenue	<u>7,186</u>		<u>7,186</u>
Total revenue	2,006,557	238,623	2,245,180
Net assets released from restrictions:			
Program expenditures	<u>172,337</u>	<u>(172,337)</u>	
Total	<u>2,178,894</u>	<u>66,286</u>	<u>2,245,180</u>
<b>EXPENSES:</b>			
Program services:			
Food Pantry	739,203		739,203
Resale Shop	512,969		512,969
Social Services	199,140		199,140
Domestic Abuse Center	183,959		183,959
Sexual Abuse Center	<u>147,106</u>		<u>147,106</u>
Total program services	1,782,377		1,782,377
Management and general	190,392		190,392
Fundraising	<u>113,897</u>		<u>113,897</u>
Total expenses	<u>2,086,666</u>		<u>2,086,666</u>
CHANGES IN NET ASSETS	92,228	66,286	158,514
Net assets, beginning of year	<u>280,404</u>	<u>8,956</u>	<u>289,360</u>
Net assets, end of year	<u>\$ 372,632</u>	<u>\$ 75,242</u>	<u>\$ 447,874</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>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUE:</b>			
Resale shop revenues:			
In-kind contributions of resale shop inventory ( <i>Note 8</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 ( <i>Note 6</i> )	180,107	\$ 125,894	306,001
In-kind food donations ( <i>Note 8</i> )	574,557		574,557
Other in-kind contributions ( <i>Note 8</i> )	39,352	24,095	63,447
Special event	119,006		119,006
Cost of direct donor benefits	(30,686)		(30,686)
Government grants ( <i>Note 5</i> )	221,880		221,880
Gain on sale of property	<u>10,054</u>	<u>          </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>	<u>          </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

### Statements of Cash Flows for the years ended December 31, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 158,514	\$ 158,496
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	8,949	9,437
Changes in operating assets and liabilities:		
Government grants receivable	(34,397)	(26,907)
Prepaid expenses and other assets	8,634	(8,393)
Food pantry inventory	(83,077)	
Resale shop inventory	(6,401)	12,301
Accounts payable and accrued liabilities	28,798	149
Deferred revenue	<u>2,016</u>	<u>          </u>
Net cash provided by operating activities	<u>83,036</u>	<u>145,083</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(32,357)</u>	<u>(13,661)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(11,395)	(34,776)
Principal payments on capital lease	<u>          </u>	<u>(12,538)</u>
Net cash used by financing activities	<u>(11,395)</u>	<u>(47,314)</u>
NET CHANGE IN CASH	39,284	84,108
Cash, beginning of year	<u>223,176</u>	<u>139,068</u>
Cash, end of year	<u>\$ 262,460</u>	<u>\$ 223,176</u>

*See accompanying notes to financial statements.*

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## Katy Christian Ministries

### Statement of Functional Expenses for the year ended December 31, 2016

	FOOD PANTRY	RESALE SHOP	SOCIAL SERVICES	DOMESTIC ABUSE CENTER	SEXUAL ABUSE CENTER	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries and related benefits	\$ 36,291	\$ 347,644	\$ 88,047	\$ 148,547	\$ 107,466	\$ 123,644	\$ 41,215	\$ 892,854
Direct assistance	673,606		94,842	12,233	12,515			793,196
Rent	19,694	87,284	6,849	5,132	5,132	12,822	4,274	141,187
Professional services		14,000			2,000	17,331	36,748	70,079
Supplies	1,796	7,510	1,642	3,671	3,994	3,629	25,743	47,985
Insurance	1,028	8,604	813	813	813	4,356		16,427
Telephone	1,452	2,783	1,452	3,723	3,736	1,454		14,600
Utilities	2,311	8,939	802	744	752	1,026		14,574
Auto and truck	515	11,037		10		31		11,593
Computer	1,361	889	1,386	1,766	1,448	4,595		11,445
Bank and credit card fees	56	8,357	76	8	3	1,494	859	10,853
Depreciation	340	3,200	1,096	1,055	1,255	1,748	255	8,949
Trash		8,622						8,622
Mileage reimbursement	332	248	1,447	2,631	2,296	758		7,712
Staff training				2,909	2,297	906		6,112
Repairs and maintenance	271	2,186	76	101	60	2,744		5,438
Office furniture and equipment			144		2,712	330		3,186
Rental – storage		412	412	412	412	1,427		3,075
Security	108	351	35	35	35	35		599
Interest						49		49
Other	42	903	21	169	180	12,013	4,803	18,131
Total expenses	<u>\$ 739,203</u>	<u>\$ 512,969</u>	<u>\$ 199,140</u>	<u>\$ 183,959</u>	<u>\$ 147,106</u>	<u>\$ 190,392</u>	<u>\$ 113,897</u>	2,086,666
In-kind cost of goods sold								621,388
Direct donor benefits for special events								15,603
Total								<u>\$ 2,723,657</u>

*See accompanying notes to financial statements.*

## 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
Salaries and related benefits	\$ 33,428	\$ 231,476	\$ 79,896	\$ 103,404	\$ 83,980	\$ 103,648	\$ 25,343	\$ 661,175
Direct assistance	592,685		65,137	14,329	10,768			682,919
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
Telephone	1,673	1,606	1,673	3,997	5,095	1,797		15,841
Utilities	2,821	7,579	1,399	1,153	1,156	2,055		16,163
Auto and truck	1,352	10,887		27				12,266
Computer	2,156	2,004	2,329	2,976	2,151	2,678		14,294
Bank and credit card fees		7,381				165	1,096	8,642
Depreciation	378	4,579	903	1,169	949	1,171	288	9,437
Trash		11,605						11,605
Mileage reimbursement	161		753	1,838	1,571	494		4,817
Staff training				3,296	1,974	786		6,056
Repairs and maintenance	481	2,347	81	286	270	2,229		5,694
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
Total expenses	<u>\$ 665,136</u>	<u>\$ 357,468</u>	<u>\$ 169,815</u>	<u>\$ 147,794</u>	<u>\$ 121,030</u>	<u>\$ 168,688</u>	<u>\$ 33,759</u>	1,663,690
In-kind cost of goods sold								582,530
Direct donor benefits for special events								<u>30,686</u>
Total								<u>\$ 2,276,906</u>

*See accompanying notes to financial statements.*

## Katy Christian Ministries

Notes to Financial Statements for the years ended December 31, 2016 and 2015

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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 inventory – 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 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 – PROPERTY**

At December 31, 2016 and 2015, property consists of various office equipment, net of accumulated depreciation of approximately \$242,000 and \$233,000, respectively.

## **NOTE 3 – NOTES PAYABLE**

KCM has a \$50,000 revolving line of credit with a bank, interest at 3.25% and monthly minimum payments the greater of 3% of the balance or \$150, due on demand by the bank. The line of credit had no balance at December 31, 2016 and a balance of \$11,395 at December 31, 2015.

## **NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Emergency disaster relief	\$ 26,171	
Director of communication salaries	17,333	
School supplies	11,365	\$ 8,956
Capacity building	10,000	
Rent/mortgage assistance	6,528	
Professional development	<u>3,845</u>	
Total temporarily restricted net assets	<u>\$ 75,242</u>	<u>\$ 8,956</u>

## NOTE 5 – GOVERNMENT GRANTS

KCM received funding through contracts with state and local governmental agencies. Government grants 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 noncompliance by KCM with the terms of the contracts.

## NOTE 6 – CONDITIONAL PROMISES TO GIVE

In 2016 and 2015, KCM received restricted grants totaling \$40,000 for each period that contained donor conditions contingent upon achieving certain operational targets. These grants represent conditional promises to give and are recognized as contribution revenue when the donor conditions are met. KCM recognized \$44,000 and \$51,600 as contributions during 2016 and 2015, respectively.

## NOTE 7 – COMMITMENTS

Lease commitments – KCM leases office and retail space and equipment under noncancelable operating lease agreements. Related lease expense of approximately \$144,000 and \$112,000 was recognized during 2016 and 2015, respectively. Future minimum lease payments at December 31, 2016 are due as follows:

2017	\$	133,672
2018		113,558
2019		106,854
2020		109,048
2021		108,299
2022 and thereafter		<u>27,075</u>
Total	\$	<u>598,506</u>

## NOTE 8 – IN-KIND CONTRIBUTIONS

In-kind contributions consist of the following:

	<u>2016</u>	<u>2015</u>
Food Pantry	\$ 743,588	\$ 574,557
Resale Shop inventory	627,789	570,228
Direct assistance food/clothing	30,258	63,447
Other	<u>17,787</u>	<u>          </u>
Total	<u>\$ 1,419,422</u>	<u>\$ 1,208,232</u>

## NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 25, 2017, 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.