

Katy Christian Ministries

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2019 and 2018

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, 2019 and 2018 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.

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Katy Christian Ministries as of December 31, 2019 and 2018 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

July 2, 2020

Katy Christian Ministries

Statements of Financial Position as of December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 761,074	\$ 1,123,245
Contributions receivable:		
Government grants	82,281	47,412
Other	30,678	31,218
Prepaid expenses and other assets	43,898	9,138
Food pantry inventory	74,330	88,010
Resale shop inventory	62,469	37,260
Property, net (<i>Note 4</i>)	<u>290,557</u>	<u>82,521</u>
TOTAL ASSETS	<u>\$ 1,345,287</u>	<u>\$ 1,418,804</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 117,349	\$ 80,183
Refundable advance	6,942	
Deferred revenue	20,000	30,000
Deferred rent liability	91,304	
Notes payable (<i>Note 5</i>)	<u>42,715</u>	<u> </u>
Total liabilities	<u>278,310</u>	<u>110,183</u>
Commitments and contingencies (<i>Notes 8 and 9</i>)		
Net assets:		
Without donor restrictions (<i>Note 6</i>)	826,537	828,902
With donor restrictions (<i>Note 7</i>)	<u>240,440</u>	<u>479,719</u>
Total net assets	<u>1,066,977</u>	<u>1,308,621</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,345,287</u>	<u>\$ 1,418,804</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Activities for the year ended December 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Resale shop revenues:			
In-kind contributions of resale shop inventory (<i>Note 10</i>)	\$ 982,111		\$ 982,111
In-kind cost of goods sold	(956,901)		(956,901)
Sales of donated items	<u>982,202</u>		<u>982,202</u>
Net revenue from resale shops	1,007,412		1,007,412
Contributions:			
Government grants (<i>Note 8</i>)		\$ 459,228	459,228
Other contributions	308,212	514,534	822,746
In-kind food donations (<i>Notes 8 and 10</i>)	1,972,564		1,972,564
Other in-kind contributions (<i>Note 10</i>)	63,015		63,015
Special event	196,332		196,332
Cost of direct donor benefits	(77,883)		(77,883)
Other revenue	<u>9,849</u>		<u>9,849</u>
Total revenue	3,479,501	973,762	4,453,263
Net assets released from restrictions:			
Program expenditures	<u>1,213,041</u>	<u>(1,213,041)</u>	
Total	<u>4,692,542</u>	<u>(239,279)</u>	<u>4,453,263</u>
EXPENSES:			
Program services:			
Food Pantry	2,125,506		2,125,506
Social Services	1,008,859		1,008,859
Resale Shop	653,317		653,317
Domestic Abuse Center	185,873		185,873
Sexual Abuse Center	<u>182,563</u>		<u>182,563</u>
Total program services	4,156,118		4,156,118
Management and general	335,438		335,438
Fundraising	<u>203,351</u>		<u>203,351</u>
Total expenses	<u>4,694,907</u>		<u>4,694,907</u>
CHANGES IN NET ASSETS	(2,365)	(239,279)	(241,644)
Net assets, beginning of year	<u>828,902</u>	<u>479,719</u>	<u>1,308,621</u>
Net assets, end of year	<u>\$ 826,537</u>	<u>\$ 240,440</u>	<u>\$ 1,066,977</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Activities for the year ended December 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Resale shop revenues:			
In-kind contributions of resale shop inventory (<i>Note 10</i>)	\$ 832,259		\$ 832,259
In-kind cost of goods sold	(826,164)		(826,164)
Sales of donated items	<u>832,260</u>		<u>832,260</u>
Net revenue from resale shops	838,355		838,355
Contributions:			
Government grants (<i>Note 8</i>)		\$ 465,056	465,056
Other contributions	290,023	1,273,707	1,563,730
In-kind food donations (<i>Notes 8 and 10</i>)	1,938,636		1,938,636
Other in-kind contributions (<i>Note 10</i>)	39,387		39,387
Special event	168,376		168,376
Cost of direct donor benefits	(23,325)		(23,325)
Other revenue	<u>4,638</u>		<u>4,638</u>
Total revenue	3,256,090	1,738,763	4,994,853
Net assets released from restrictions:			
Program expenditures	<u>1,807,781</u>	<u>(1,807,781)</u>	
Total	<u>5,063,871</u>	<u>(69,018)</u>	<u>4,994,853</u>
EXPENSES:			
Program services:			
Food Pantry	2,045,911		2,045,911
Social Services	1,551,964		1,551,964
Resale Shop	464,894		464,894
Domestic Abuse Center	198,395		198,395
Sexual Abuse Center	<u>171,720</u>		<u>171,720</u>
Total program services	4,432,884		4,432,884
Management and general	292,367		292,367
Fundraising	<u>135,624</u>		<u>135,624</u>
Total expenses	<u>4,860,875</u>		<u>4,860,875</u>
CHANGES IN NET ASSETS	202,996	(69,018)	133,978
Net assets, beginning of year	<u>625,906</u>	<u>548,737</u>	<u>1,174,643</u>
Net assets, end of year	<u>\$ 828,902</u>	<u>\$ 479,719</u>	<u>\$ 1,308,621</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statements of Cash Flows for the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (241,644)	\$ 133,978
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	38,008	15,633
Changes in operating assets and liabilities:		
Contributions receivable	(34,329)	(762)
Prepaid expenses and other assets	(34,760)	(21,197)
Food pantry inventory	13,680	(8,284)
Resale shop inventory	(25,209)	(6,096)
Accounts payable and accrued liabilities	37,166	8,150
Deferred revenue and refundable advance	(3,058)	13,900
Deferred rent liability	<u>91,304</u>	<u> </u>
Net cash provided (used) by operating activities	<u>(158,842)</u>	<u>135,322</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property	<u>(197,227)</u>	<u>(22,938)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	<u>(6,102)</u>	
NET CHANGE IN CASH	(362,171)	112,384
Cash, beginning of year	<u>1,123,245</u>	<u>1,010,861</u>
Cash, end of year	<u>\$ 761,074</u>	<u>\$ 1,123,245</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Note payable to finance purchase of truck	\$49,000	

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Functional Expenses for the year ended December 31, 2019

	FOOD PANTRY	SOCIAL SERVICES	RESALE SHOP	DOMESTIC ABUSE CENTER	SEXUAL ABUSE CENTER	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Direct assistance	\$ 2,020,354	\$ 679,367		\$ 15,989	\$ 5,679			\$ 2,721,389
Salaries and related benefits	40,422	293,379	\$ 301,490	149,457	152,060	\$ 254,214	\$ 130,870	1,321,892
Rent	36,836	17,267	219,877	4,903	4,903	11,000	8,953	303,739
Professional services		300				20,135	43,102	63,537
Supplies	1,665	3,368	8,418	1,208	3,113	6,133	2,892	26,797
Utilities	7,480	1,875	19,774	403	403	1,509	1,098	32,542
Insurance	4,366	2,782	22,330	1,218	938	2,544	763	34,941
Computer	2,347	3,057	1,465	2,855	1,745	4,279	870	16,618
Depreciation	6,176	983	22,989	809	579	1,510	4,961	38,007
Telephone	1,596	1,473	5,861	4,070	4,244	1,355	88	18,687
Bank and credit card fees			16,449	26		5,980	832	23,287
Mileage reimbursement		2,564	1,266	2,652	3,596	432	1,088	11,598
Repairs and maintenance	2,309	2,196	4,076	1,884	2,114	2,617	108	15,304
Auto and truck	226		5,768	167		383		6,544
Trash			11,087					11,087
Other	1,729	248	12,467	232	3,189	23,347	7,726	48,938
Total expenses	<u>\$ 2,125,506</u>	<u>\$ 1,008,859</u>	<u>\$ 653,317</u>	<u>\$ 185,873</u>	<u>\$ 182,563</u>	<u>\$ 335,438</u>	<u>\$ 203,351</u>	4,694,907
In-kind cost of goods sold								956,901
Cost of direct donor benefits								77,883
Total								<u>\$ 5,729,691</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Functional Expenses for the year ended December 31, 2018

	FOOD PANTRY	SOCIAL SERVICES	RESALE SHOP	DOMESTIC ABUSE CENTER	SEXUAL ABUSE CENTER	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Direct assistance	\$ 1,949,779	\$ 1,149,799		\$ 12,507	\$ 8,056			\$ 3,120,141
Salaries and related benefits	34,387	319,518	\$ 273,833	157,666	141,419	\$ 215,704	\$ 99,363	1,241,890
Rent	36,566	19,807	101,609	7,618	7,618	1,878	1,054	176,150
Professional services		20,420				32,088	27,606	80,114
Supplies	2,181	27,015	7,198	3,180	2,041	4,129	2,977	48,721
Utilities	7,085	1,822	9,744	1,025	1,025	1,166	656	22,523
Insurance	3,598	1,038	15,168	318	318	754	424	21,618
Computer	1,319	2,576	645	2,291	898	12,236		19,965
Depreciation	5,300	1,072	5,820	431	623	1,540	847	15,633
Telephone	943	1,343	3,788	3,820	3,230	1,060	596	14,780
Rental – storage			14,000					14,000
Bank and credit card fees	32		10,032	5		1,723	1,290	13,082
Mileage reimbursement		4,103	643	2,373	3,980	1,028		12,127
Repairs and maintenance	2,814	1,468	733	813	796	5,451		12,075
Auto and truck	1,377		8,284					9,661
Trash			9,614					9,614
Other	<u>530</u>	<u>1,983</u>	<u>3,783</u>	<u>6,348</u>	<u>1,716</u>	<u>13,610</u>	<u>811</u>	<u>28,781</u>
Total expenses	<u>\$ 2,045,911</u>	<u>\$ 1,551,964</u>	<u>\$ 464,894</u>	<u>\$ 198,395</u>	<u>\$ 171,720</u>	<u>\$ 292,367</u>	<u>\$ 135,624</u>	4,860,875
In-kind cost of goods sold								826,164
Cost of direct donor benefits								<u>23,325</u>
Total								<u>\$ 5,710,364</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Notes to Financial Statements for the years ended December 31, 2019 and 2018

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.
- *Social Services* provides referrals to various support and services in the community plus direct assistance including rent/mortgage assistance, utilities, and school supplies.
- The *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.
- 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).

Cash – Bank deposits exceed the federally insured limit per depositor per institution.

Cash equivalents are comprised of money market mutual funds recognized at fair value. Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Money market mutual funds use Level 1 inputs in the fair value hierarchy; Level 1 inputs are those which use unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date. At December 31, 2019 and 2018, money market mutual funds were \$400,529 and \$0, respectively.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. Contributions receivable at December 31, 2019 are expected to be collected in less than one year.

An allowance for contributions receivable is provided when it is believed accounts may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and analysis of individual balances each period. 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.

Food pantry inventory is carried at estimated fair value of donated food.

Resale shop inventory is carried at the lower of cost or net realizable value. The majority of items sold in the KCM resale shop 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 is reported at cost if purchased or at fair value at the date of gift if donated. Generally, acquisitions of property in excess of \$500 are capitalized. Depreciation is provided using the straight-line method over estimated useful lives of 5 to 10 years.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

Resale shop sales are recognized when goods are provided to a customer, in an amount that reflects the consideration KCM expects to be entitled to in exchange for those goods. Payment is due at point of sale. The nature of these sales does not give rise to contract costs or any variable considerations, warranties, or other obligations. Sales are from customers residing or doing business in or near Katy, Texas. There are no receivables, contract assets, or liabilities related to these transactions.

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 with donor restrictions. Conditional contributions are subject to one or more barriers that must be overcome before KCM is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met. Funding received before conditions are met is reported as refundable advances. A portion of KCM's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when KCM has incurred expenditures in compliance with specific contract or grant provisions. Conditional cost-reimbursable grants of approximately \$326,000 have not been recognized at December 31, 2019 because qualifying expenditures have not been incurred and/or performance requirements have not been met.

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.

Special events revenue represents the amounts paid by donors, sponsors, and attendees of a fundraising event. Ticket sales include elements of both contributions and exchange transactions and are recognized when an event occurs. Cost of direct donor benefits provided represents the costs of goods and services provided in exchange for the amount paid by event attendees. Amounts received for future events are reported in the statement of financial position as deferred revenue.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and occupancy costs are allocated based on square footage.

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 statement of activities to conform with the current presentation.

Recent financial accounting pronouncement – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2022. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS

KCM adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the new guidance is that the entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services using a 5-step process to determine when performance obligations are satisfied and revenue is recognized and requires expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. KCM adopted the ASU effective January 1, 2018 using the full retrospective method. The timing and amount of revenue recognized previously is consistent with how revenue is recognized under this ASU and therefore, adoption of this ASU had no impact on net assets or changes in net assets for 2018, but resulted in additional disclosures.

In conjunction with the adoption of ASU 2014-09, KCM adopted the amendments of ASU 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies the distinction between contributions and exchange transactions and between conditional and unconditional contributions. This amendment has been

applied on a retrospective basis to the financial statements for the year ended December 31, 2018. Because the timing and amount of revenue recognized previously is not different from revenue recognized under new guidance, adoption of this standard had no impact on net assets or on total changes in net assets for the year ended December 31, 2018. Presentation and disclosures pertaining to the year ended December 31, 2018 have been updated as appropriate to conform to the new standard.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31 comprise the following:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash and cash equivalents	\$ 761,074	\$ 1,123,245
Contributions receivable	<u>112,959</u>	<u>78,630</u>
Total financial assets	874,033	1,201,875
Less financial assets not available for general expenditure:		
Board-designated for capital expansion		(173,212)
Board-designated for operating reserves	<u>(350,000)</u>	<u>(270,000)</u>
Total financial assets available for general expenditure	<u>\$ 524,033</u>	<u>\$ 758,663</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, KCM considers all expenditures related to its ongoing activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

KCM is supported by various donations from their 52-member churches, individuals, foundations, corporations, and the government agencies. As part of the KCM's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. KCM's Board of Directors has designated a portion of its unrestricted resources for operating reserves. These funds remain available and may be spent at the discretion of the Board of Directors. KCM also has a \$50,000 line of credit that may be drawn upon in the event of unanticipated financial circumstances or an immediate liquidity need resulting from events outside the typical business cycle of converting financial assets to cash or settling financial liabilities.

NOTE 4 – PROPERTY

Property consists of the following:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 94,841	\$ 86,307
Furniture and fixtures	67,207	44,974
Leasehold improvements	185,458	62,457
Vehicles	<u>152,326</u>	<u>60,050</u>
Total property, at cost	499,832	253,788
Accumulated depreciation	<u>(209,275)</u>	<u>(171,267)</u>
Property, net	<u>\$ 290,557</u>	<u>\$ 82,521</u>

NOTE 5 – NOTES PAYABLE

KCM has a \$50,000 revolving line of credit with a bank. Interest is 3.25% and requires monthly minimum payments of the greater of 3% of the balance or \$150. The line of credit had no balance at December 31, 2019 and 2018.

In April 2019, KCM financed a vehicle. Under the terms of the agreement, interest is 5.54% and monthly minimum payments are required of \$678 for 72 months.

Future payments at December 31, 2019 are due as follows:

2020	\$	8,293
2021		7,937
2022		7,925
2023		7,913
2024		7,863
Thereafter		<u>2,784</u>
Total	\$	<u>42,715</u>

NOTE 6 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 95,450	\$ 303,169
Board-designated reserves:		
Operating	440,530	270,000
Capital expansion		173,212
Property, net	<u>290,557</u>	<u>82,521</u>
Total net assets without restrictions	<u>\$ 826,537</u>	<u>\$ 828,902</u>

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Case worker salaries	\$ 75,000	
Seniors assistance	43,351	
Emergency disaster relief	42,488	\$ 309,827
Rent/mortgage assistance	27,778	21,713
Food pantry	25,666	20,250
School supplies	14,485	7,473
Emergency disaster relief – case worker salaries		112,644
Other	<u>11,672</u>	<u>7,812</u>
Total net assets with donor restrictions	<u>\$ 240,440</u>	<u>\$ 479,719</u>

NOTE 8 – GOVERNMENT GRANTS

KCM receives funding through contracts with federal and state 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. Management believes such disallowances, if any, would not be material to KCM's financial position or changes in net assets.

NOTE 9 – COMMITMENTS

Lease commitments – KCM leases office and retail space and equipment under noncancelable operating lease agreements. Related lease expense of approximately \$208,000 and \$176,000 was recognized during 2019 and 2018, respectively. Future minimum lease payments at December 31, 2019 are due as follows:

2020	\$ 279,459
2021	295,708
2022	195,865
2023	164,264
2024	166,125
Thereafter	<u>13,875</u>
Total	<u>\$ 1,115,296</u>

NOTE 10 – IN-KIND CONTRIBUTIONS

In-kind contributions consist of the following:

	<u>2019</u>	<u>2018</u>
Food Pantry	\$ 1,972,564	\$ 1,938,636
Resale Shop inventory	982,111	832,259
Direct assistance food/clothing	22,652	33,648
Other	<u>40,363</u>	<u>5,739</u>
Total	<u>\$ 3,017,690</u>	<u>\$ 2,810,282</u>

NOTE 11 – CONTRIBUTION CONCENTRATION

Contributions from two donors totaled approximately \$234,000 or 28% and \$880,000 or 55% at December 31, 2019 and 2018, respectively.

NOTE 12 – SUBSEQUENT EVENTS

On March 11, 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and on March 13, 2020, a national emergency was declared in the United States.

Business disruption caused by the pandemic is expected to reduce revenue and increase costs as KCM's resale shops have been temporarily closed and has adapted their other programs to on-line platforms to continue to serve clients. KCM has pursued and received financial relief of approximately \$285,000 under the Small Business Administration's Payroll Protection Program, which is legislation passed by the Federal government. The loan is subject to be forgiven if all conditions are met, including the use of the funds being used to meet payroll and other specific expenses.

The extent of the impact of COVID-19 on KCM's operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on those served by KCM, donors, employees, and vendors all of which are uncertain and cannot be predicted. Therefore, while KCM expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

Management has evaluated subsequent events through July 2, 2020, 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.
