

Katy Christian Ministries

Financial Statements
and Single Audit Reports
for the year ended December 31, 2021

Katy Christian Ministries

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Independent Auditors' Report

To the Board of Directors of
Katy Christian Ministries:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Katy Christian Ministries, which comprise the statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Katy Christian Ministries as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Katy Christian Ministries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Katy Christian Ministries' ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Katy Christian Ministries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Katy Christian Ministries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended December 31, 2021 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2022 on our consideration of Katy Christian Ministries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Katy Christian Ministries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Katy Christian Ministries' internal control over financial reporting and compliance.



July 5, 2022

Katy Christian Ministries

Statements of Financial Position as of December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 1,282,683	\$ 1,143,017
Contributions receivable:		
Government grants	690,342	150,858
Other	422,120	156,192
Prepaid expenses and other assets	34,154	61,648
Food pantry inventory	201,927	166,152
Resale shop inventory	162,830	113,838
Property, net (<i>Note 3</i>)	<u>1,917,022</u>	<u>314,299</u>
TOTAL ASSETS	<u>\$ 4,711,078</u>	<u>\$ 2,106,004</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 153,171	\$ 158,093
Construction payable	41,413	
Deferred rent liability	76,467	92,135
Notes payable (<i>Note 4</i>)	<u>1,104,719</u>	<u>36,472</u>
Total liabilities	<u>1,375,770</u>	<u>286,700</u>
Commitments and contingencies (<i>Notes 4, 6 and 8</i>)		
Net assets:		
Without donor restrictions	1,766,006	1,464,551
With donor restrictions (<i>Note 5</i>)	<u>1,569,302</u>	<u>354,753</u>
Total net assets	<u>3,335,308</u>	<u>1,819,304</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,711,078</u>	<u>\$ 2,106,004</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Activities for the year ended December 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Resale shop revenues:			
In-kind contributions of resale shop inventory (<i>Note 7</i>)	\$ 1,458,023		\$ 1,458,023
Sales of donated items	1,409,032		1,409,032
In-kind cost of goods sold	<u>(1,409,032)</u>		<u>(1,409,032)</u>
Net revenue from resale shops	1,458,023		1,458,023
Contributions:			
Government grants (<i>Notes 6 and 7</i>)		\$ 1,138,195	1,138,195
Other financial	418,980	2,027,951	2,446,931
Other in-kind (<i>Note 7</i>)	2,569,737		2,569,737
Special event	197,505		197,505
Cost of direct donor benefits	(29,908)		(29,908)
Loss on disposal of asset	(19,855)		(19,855)
Other revenue	<u>60,810</u>		<u>60,810</u>
Total revenue	4,655,292	3,166,146	7,821,438
Net assets released from restrictions:			
Program expenditures	<u>1,951,597</u>	<u>(1,951,597)</u>	
Total	<u>6,606,889</u>	<u>1,214,549</u>	<u>7,821,438</u>
EXPENSES:			
Program services:			
Food Pantry	3,105,350		3,105,350
Social Services	1,200,750		1,200,750
Resale Shop	879,657		879,657
Sexual Abuse Center	236,143		236,143
Domestic Abuse Center	<u>194,510</u>		<u>194,510</u>
Total program services	5,616,410		5,616,410
Management and general	372,674		372,674
Fundraising	<u>316,350</u>		<u>316,350</u>
Total expenses	<u>6,305,434</u>		<u>6,305,434</u>
CHANGES IN NET ASSETS	301,455	1,214,549	1,516,004
Net assets, beginning of year	<u>1,464,551</u>	<u>354,753</u>	<u>1,819,304</u>
Net assets, end of year	<u>\$ 1,766,006</u>	<u>\$ 1,569,302</u>	<u>\$ 3,335,308</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Activities for the year ended December 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Resale shop revenues:			
In-kind contributions of resale shop inventory (Note 7)	\$ 1,101,693		\$ 1,101,693
Sales of donated items	1,050,324		1,050,324
In-kind cost of goods sold	<u>(1,050,324)</u>		<u>(1,050,324)</u>
Net revenue from resale shops	1,101,693		1,101,693
Contributions:			
Government grants (Notes 6 and 7)		\$ 1,414,009	1,414,009
Other financial	579,479	1,213,407	1,792,886
Other in-kind (Note 7)	2,869,647		2,869,647
Special event	127,695		127,695
Cost of direct donor benefits	(42,795)		(42,795)
Loss on disposal of asset	(2,746)		(2,746)
Other revenue	<u>4,638</u>		<u>4,638</u>
Total revenue	4,637,611	2,627,416	7,265,027
Net assets released from restrictions:			
Program expenditures	<u>2,513,103</u>	<u>(2,513,103)</u>	
Total	<u>7,150,714</u>	<u>114,313</u>	<u>7,265,027</u>
EXPENSES:			
Program services:			
Food Pantry	3,373,030		3,373,030
Social Services	1,310,118		1,310,118
Resale Shop	733,382		733,382
Sexual Abuse Center	257,353		257,353
Domestic Abuse Center	<u>251,196</u>		<u>251,196</u>
Total program services	5,925,079		5,925,079
Management and general	300,949		300,949
Fundraising	<u>286,672</u>		<u>286,672</u>
Total expenses	<u>6,512,700</u>		<u>6,512,700</u>
CHANGES IN NET ASSETS	638,014	114,313	752,327
Net assets, beginning of year	<u>826,537</u>	<u>240,440</u>	<u>1,066,977</u>
Net assets, end of year	<u>\$ 1,464,551</u>	<u>\$ 354,753</u>	<u>\$ 1,819,304</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statements of Cash Flows for the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,516,004	\$ 752,327
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	71,649	59,614
Contributions restricted for capital campaign	(299,137)	(177,237)
Loss on disposal of asset	19,855	2,746
Changes in operating assets and liabilities:		
Contributions receivable	(825,243)	(190,326)
Prepaid expenses and other assets	27,494	(17,750)
Food pantry inventory	(35,775)	(91,822)
Resale shop inventory	(48,992)	(51,369)
Accounts payable and accrued liabilities	(4,922)	40,744
Deferred revenue and refundable advance		(26,942)
Deferred rent liability	<u>(15,668)</u>	<u>831</u>
Net cash provided by operating activities	<u>405,265</u>	<u>300,816</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(1,652,814)</u>	<u>(86,102)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(197,044)	(6,243)
Proceeds from notes payable	1,265,291	
Proceeds from contributions restricted for capital projects	<u>318,968</u>	<u>173,472</u>
Net cash provided by financing activities	<u>1,387,215</u>	<u>167,229</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	139,666	381,943
Cash and cash equivalents, beginning of year	<u>1,143,017</u>	<u>761,074</u>
Cash and cash equivalents, end of year	<u>\$ 1,282,683</u>	<u>\$ 1,143,017</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Functional Expenses for the year ended December 31, 2021

	FOOD PANTRY	SOCIAL SERVICES	RESALE SHOP	SEXUAL ABUSE CENTER	DOMESTIC ABUSE CENTER	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Direct assistance	\$ 2,964,538	\$ 799,541		\$ 9,449	\$ 20,198			\$ 3,793,726
Salaries and related benefits	68,742	362,373	\$ 420,313	203,886	153,090	\$ 241,361	\$ 271,500	1,721,265
Rent	38,023	15,843	287,848	2,132	2,132	14,697	15,843	376,518
Depreciation	13,505	1,365	39,888	2,831	6,828	2,882	4,350	71,649
Bank and credit card fees		44	30,051			20,209	161	50,465
Insurance	4,937	1,476	31,949	591	591	4,839	1,460	45,843
Supplies	819	2,908	9,422	3,876	762	15,665	10,317	43,769
Utilities	8,667	1,698	20,762			7,167	1,697	39,991
Telephone	1,160	3,209	7,893	5,741	4,740	5,781	1,906	30,430
Computer	1,605	7,031	114	2,633	2,884	10,700	2,498	27,465
Professional services	340	602		1,000		25,390		27,332
Repairs and maintenance	1,885	2,511	6,619	2,033	2,033	9,465	188	24,734
Trash			11,973			1,451		13,424
Auto and truck	506		4,514			18		5,038
Mileage reimbursement		321	72	547	421		34	1,395
Other	623	1,828	8,239	1,424	831	13,049	6,396	32,390
Total expenses	<u>\$ 3,105,350</u>	<u>\$ 1,200,750</u>	<u>\$ 879,657</u>	<u>\$ 236,143</u>	<u>\$ 194,510</u>	<u>\$ 372,674</u>	<u>\$ 316,350</u>	6,305,434
In-kind cost of goods sold								1,409,032
Cost of direct donor benefits								29,908
Total								<u>\$ 7,744,374</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Functional Expenses for the year ended December 31, 2020

	FOOD PANTRY	SOCIAL SERVICES	RESALE SHOP	SEXUAL ABUSE CENTER	DOMESTIC ABUSE CENTER	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Direct assistance	\$ 3,243,214	\$ 910,602		\$ 4,010	\$ 68,348			\$ 4,226,174
Salaries and related benefits	61,371	356,425	\$ 352,326	228,281	162,264	\$ 200,708	\$ 248,713	1,610,088
Rent	37,726	15,719	236,347	2,558	2,558	12,575	15,719	323,202
Depreciation	8,717	1,007	37,164	1,937	3,766	2,133	4,890	59,614
Bank and credit card fees			20,359			14,614	1,235	36,208
Insurance	4,578	1,234	26,124	483	483	831	1,218	34,951
Supplies	1,931	6,520	5,909	4,330	1,889	8,847	5,939	35,365
Utilities	8,135	1,602	20,518			1,121	1,589	32,965
Telephone	2,069	1,635	7,636	6,357	4,656	5,597	310	28,260
Computer	1,626	7,177	984	1,733	2,801	10,623	22	24,966
Professional services		3,800		2,000	250	23,489	492	30,031
Repairs and maintenance	2,736	1,496	3,700	1,215	1,869	8,389	144	19,549
Trash			9,873					9,873
Auto and truck	132		4,398			25		4,555
Mileage reimbursement		643	37	1,396	1,523	444	180	4,223
Other	795	2,258	8,007	3,053	789	11,553	6,221	32,676
Total expenses	<u>\$ 3,373,030</u>	<u>\$ 1,310,118</u>	<u>\$ 733,382</u>	<u>\$ 257,353</u>	<u>\$ 251,196</u>	<u>\$ 300,949</u>	<u>\$ 286,672</u>	6,512,700
In-kind cost of goods sold								1,050,324
Cost of direct donor benefits								42,795
Total								<u>\$ 7,605,819</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Notes to Financial Statements for the years ended December 31, 2021 and 2020

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 *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).

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, 2020, money market mutual funds were \$603,170. At December 31, 2021, there are no cash equivalents.

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. At December 31, 2021, \$733,386 is expected to be collected in less than one year and \$250,000 is expected to be collected in two years.

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 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 \$661,000 have not been recognized at December 31, 2021 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, includes elements of both contributions and exchange transactions, and are recognized when an event occurs. Cost of direct donor benefits represent the costs of goods and services provided to 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.

Recent financial accounting pronouncements – 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, 2021. Upon adoption, management expects to recognize lease commitments as both a right of use asset and a lease liability in the statement of financial position for commitments that are currently only disclosed in the financial statements.

ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, will require contributed nonfinancial assets to be presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, and will require disclosure about the measurement and use of types of contributed nonfinancial assets. The ASU will be effective for years beginning after June 15, 2021 and requires retrospective application. KCM is required to adopt this ASU for fiscal year ending December 31, 2022.

NOTE 2 – 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>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 1,282,683	\$ 1,143,017
Contributions receivable	<u>1,112,462</u>	<u>307,050</u>
Total financial assets	2,395,145	1,450,067
Less financial assets not available for general expenditure:		
Donor-restricted not expected to be used within one year	(281,184)	(40,000)
Cash and contributions receivable restricted for capital projects	(476,374)	(177,237)
Board-designated for operating reserves	<u>(350,000)</u>	<u>(350,000)</u>
Total financial assets available for general expenditure	<u>\$ 1,287,587</u>	<u>\$ 882,830</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 its 57-member churches, individuals, foundations, corporations, and 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 3 – PROPERTY

Property consists of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 1,065,273	
Equipment	122,081	\$ 98,793
Furniture and fixtures	108,946	67,715
Leasehold improvements	146,675	143,679
Vehicles	143,585	176,880
Construction in progress	<u>543,852</u>	<u>3,801</u>
Total property, at cost	2,130,412	490,868
Accumulated depreciation	<u>(213,390)</u>	<u>(176,569)</u>
Property, net	<u>\$ 1,917,022</u>	<u>\$ 314,299</u>

NOTE 4 – 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, 2021 and 2020.

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

In February 2021, KCM entered into a \$1,352,095 loan agreement with a bank. Proceeds from the loan are being used to finance the purchase and construction of a new building. The loan bears interest at 3.75% at December 31, 2021. Interest is due monthly until March 2022 when principal and accrued interest are due monthly. The loan matures in February 2031. The loan is secured by the Porter Road property. The last construction draw of \$135,348 is expected to occur in August 2022. At December 31, 2021, the outstanding principal balance was \$1,078,277.

Future payments at December 31, 2021 are due as follows:

2022	\$ 133,330
2023	158,369
2024	158,329
2025	152,266
2026	150,233
Thereafter	<u>352,192</u>
Total	<u>\$ 1,104,719</u>

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Capital campaign	\$ 476,374	\$ 177,237
Rent, mortgage and other direct assistance	451,920	73,006
Time restricted	430,660	
Case worker salaries	110,346	40,000
Food pantry	57,846	16,163
Seniors assistance	14,805	29,836
School supplies	6,867	10,517
Emergency disaster relief		522
Other	<u>20,484</u>	<u>7,472</u>
Total net assets with donor restrictions	<u>\$ 1,569,302</u>	<u>\$ 354,753</u>

NOTE 6 – GOVERNMENT GRANT CONTRIBUTIONS

KCM is a party to contracts with federal and state agencies. Should these contracts not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Sources of government grants recognized at December 31 include the following:

	<u>2021</u>	<u>2020</u>
U. S. Department of Agriculture (food commodities)	\$ 235,550	\$ 403,801
U. S. Department of Homeland Security (food commodities)	171,193	86,309
U. S. Department of Homeland Security (other than food commodities)	182,013	207,208
U. S. Small Business Administration		284,924
U. S. Department of Justice	131,065	129,178
U. S. Department of Housing and Urban Development	35,430	
U. S. Department of Treasury	16,586	
State and local grants	<u>366,358</u>	<u>302,589</u>
Total government grants	<u>\$ 1,138,195</u>	<u>\$ 1,414,009</u>

Grants from federal, state, and local funding sources 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 non-compliance 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 7 – IN-KIND CONTRIBUTIONS

KCM receives various contributed in-kind materials and food. The estimated fair value of these materials and food is recognized in the financial statements as contribution revenue and program expense. The majority of food distributed by KCM is received by contributions from donors and from discounted food provided by a local food bank. The estimated fair value of food donated is based on an average fair value per standard bag of food distributed. KCM received approximately \$407,000 and \$490,000 in federally funded food commodities in 2021 and 2020, respectively, as reported in Note 6. Non-governmental sources of in-kind contributions recognized at December 31 include the following:

	<u>2021</u>	<u>2020</u>
Food Pantry	\$ 2,548,729	\$ 2,811,127
Retail Shop inventory	1,458,023	1,050,325
Direct assistance food/clothing	21,008	29,291
Other	<u> </u>	<u>29,229</u>
Total non-governmental in-kind contributions	<u>\$ 4,027,760</u>	<u>\$ 3,919,972</u>

NOTE 8 – LEASE COMMITMENTS

KCM leases office and retail space and equipment under noncancelable operating lease agreements. Related lease expense of approximately \$371,000 and \$320,000 was recognized during 2021 and 2020, respectively. Future minimum lease payments at December 31, 2021 are due as follows:

2022	\$ 195,865
2023	164,264
2024	166,125
2025	<u>13,875</u>
Total	<u>\$ 540,129</u>

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 5, 2022, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than the draw on the construction loan disclosed in Note 4, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Katy Christian Ministries

Schedule of Expenditures of Federal Awards for the year ended December 31, 2021

<u>GRANTOR</u>	Assistance			
<u>Pass-through Grantor</u>	Listing	Contract	Award	Federal
<u>Program Title & Period</u>	<u>Number</u>	<u>Number</u>	<u>Amount</u>	<u>Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE				
Passed through The Houston Food Bank:				
Emergency Food Assistance Program – Food Commodities				
(Food Distribution Cluster) (Note 2)				
#1 10/01/20 – 09/30/21	10.569	30517	N/A	\$ <u>235,550</u>
Total U. S. Department of Agriculture				<u>235,550</u>
U. S. DEPARTMENT OF JUSTICE				
Passed through State of Texas Office of the Governor:				
Crime Victim Assistance				
#2 10/01/20 – 09/30/21	16.575	1521518	\$129,290	97,321
#3 10/01/21 – 09/30/22	16.575	1521519	\$156,244	<u>33,744</u>
Total U. S. Department of Justice				<u>131,065</u>
U. S. DEPARTMENT OF HOMELAND SECURITY				
Passed through Coalition for the Homeless:				
Emergency Food and Shelter National Board Program				
#4 01/01/20 – 10/31/21	97.024	782800-047	\$108,433	108,433
Passed through Alliance of Community Assistance Ministries:				
Emergency Food and Shelter National Board Program				
#5 01/27/20 – 05/31/21	97.024	782800-047	\$86,990	55,470
Passed through Alliance of Community Assistance Ministries:				
COVID-19-Emergency Food and Shelter National Board Program				
#6 01/01/20 – 05/31/21	97.024	782800-047 CARES	\$89,089	<u>18,110</u>
Subtotal				<u>182,013</u>
Passed through The Houston Food Bank:				
Federal Emergency Management Agency – Food Commodities (Note 2)				
#7 10/01/20 – 09/30/21	97.u01	N/A	N/A	<u>171,193</u>
Total U. S. Department of Homeland Security				<u>353,206</u>

(continued)

Katy Christian Ministries

Schedule of Expenditures of Federal Awards for the year ended December 31, 2021 *(continued)*

<u>GRANTOR</u>	Assistance			Federal
<u>Pass-through Grantor</u>	Listing	Contract	Award	Expenditures
<u>Program Title & Period</u>	<u>Number</u>	<u>Number</u>	<u>Amount</u>	<u></u>
 U. S. DEPARTMENT OF TREASURY				
Passed through Alliance of Community Assistance Ministries:				
Emergency Rental Assistance Program				
Housing Stabilization Services				
#8 10/01/21 – 08/31/22	21.023	ACAM HSS 2021-2022	\$119,519	<u>16,586</u>
Total U. S. Department of Treasury				<u>16,586</u>
 U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through Alliance of Community Assistance Ministries:				
COVID-19-Emergency Solutions Grants Program				
#9 09/01/21 – 03/31/22	14.231	KCM-ESG 12 CARES	\$176,778	<u>35,430</u>
Total U. S. Department of Housing and Urban Development				<u>35,430</u>
TOTAL FEDERAL AWARDS				<u>\$ 771,837</u>

See accompanying notes to schedule of expenditures of federal awards.

Katy Christian Ministries

Notes to Schedule of Expenditures of Federal Awards for the year ended December 31, 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Federal expenditures include allowable costs funded by federal grants. Allowable costs are subject to the cost principles of the Uniform Guidance and include costs that are recognized as expenses in KCM's financial statements in conformity with generally accepted accounting principles. KCM has not elected to use the 10% de minimus cost rate for indirect costs and does not charge indirect costs to its federal grants. Additionally, it does not have any subrecipients.

Because the schedule presents only a selected portion of the operations of KCM, it is not intended to and does not present the financial position, changes in net assets, or cash flows of KCM.

NOTE 2 – FOOD COMMODITIES

Food commodities are expended when distributed. Distributed food is reported in the schedule of expenditures of federal awards as federal expenditures and is valued at the weighted-average wholesale value of one pound of donated product based on the national per pound price as provided by the most recent Feeding America Product Valuation Survey (\$1.79 in 2021). At December 31, 2021, \$15,855 of government fund food commodities was included in pantry inventory and had not been expended.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors of
Katy Christian Ministries:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Katy Christian Ministries (KCM), which comprise the statement of financial position as of December 31, 2021 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, and have issued our report thereon dated July 5, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KCM's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KCM's internal control. Accordingly, we do not express an opinion on the effectiveness of KCM's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether KCM's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blazek & Vetterling

July 5, 2022

**Independent Auditors' Report on Compliance for Each Major
Federal Program and Report on Internal Control Over
Compliance Required by the Uniform Guidance**

To the Board of Directors of
Katy Christian Ministries:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Katy Christian Ministries' (KCM) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of KCM's major federal programs for the year ended December 31, 2021. KCM's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, KCM complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditors' Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of KCM and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of KCM's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to KCM's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on KCM's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about KCM's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding KCM's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of KCM's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of KCM's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the *Auditors' Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blazek & Vetterling

July 5, 2022

Katy Christian Ministries

Schedule of Findings and Questioned Costs for the year ended December 31, 2021

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: unmodified qualified adverse disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to the financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditors’ report issued on compliance for major programs: unmodified qualified adverse disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)? yes no

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
10.569	Emergency Food Assistance Program – Food Commodities
97.u01	Federal Emergency Management Agency – Food Commodities

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? yes no

Section II – Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There were no findings for federal awards required to be reported in accordance with 2 CFR §200.516(a).