

Katy Christian Ministries

Financial Statements
and Independent Auditors' Reports
for the years ended December 31, 2022 and 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, 2022 and 2021, 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, 2022 and 2021, 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.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2023 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.

Blazek & Vetterling

September 11, 2023

Katy Christian Ministries

Statements of Financial Position as of December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash	\$ 1,239,732	\$ 1,282,683
Contributions receivable:		
Government grants	415,923	690,342
Other	220,116	422,120
Prepaid expenses and other assets	64,180	34,154
Food pantry inventory	123,941	201,927
Resale shop inventory	87,775	162,830
Operating right-of-use assets (Note 4)	717,496	
Property, net (Note 5)	<u>2,753,715</u>	<u>1,917,022</u>
TOTAL ASSETS	<u>\$ 5,622,878</u>	<u>\$ 4,711,078</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 224,188	\$ 153,171
Construction payable		41,413
Refundable advance	143,544	
Deferred rent liability		76,467
Notes payable (Note 6)	1,355,384	1,104,719
Operating lease liabilities (Note 4)	<u>774,293</u>	
Total liabilities	<u>2,497,409</u>	<u>1,375,770</u>
Commitments and contingencies (Notes 6 and 8)		
Net assets:		
Without donor restrictions	2,460,256	1,766,006
With donor restrictions (Note 7)	<u>665,213</u>	<u>1,569,302</u>
Total net assets	<u>3,125,469</u>	<u>3,335,308</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,622,878</u>	<u>\$ 4,711,078</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Activities for the year ended December 31, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Resale shop revenues:			
Nonfinancial contributions of resale shop inventory (Note 9)	\$ 1,228,889		\$ 1,228,889
Sales of donated items	1,303,986		1,303,986
Cost of goods sold	<u>(1,303,986)</u>		<u>(1,303,986)</u>
Net revenue from resale shop	1,228,889		1,228,889
Contributed cash and other financial assets:			
Government (Note 8)		\$ 1,212,882	1,212,882
Non-government	465,164	722,155	1,187,319
Contributed nonfinancial assets (Note 9):			
Government (Note 8)		484,324	484,324
Non-government	2,709,041		2,709,041
Special event	204,583		204,583
Cost of direct donor benefits	(32,724)		(32,724)
Other revenue	<u>14,360</u>		<u>14,360</u>
Total revenue	4,589,313	2,419,361	7,008,674
Net assets released from restrictions:			
Capital expenditures	713,939	(713,939)	
Program expenditures	<u>2,609,511</u>	<u>(2,609,511)</u>	
Total	<u>7,912,763</u>	<u>(904,089)</u>	<u>7,008,674</u>
EXPENSES:			
Program services:			
Food Pantry	3,460,518		3,460,518
Social Services	1,449,960		1,449,960
Resale Shop	1,022,760		1,022,760
Sexual Abuse Center	288,384		288,384
Domestic Abuse Center	<u>176,073</u>		<u>176,073</u>
Total program services	6,397,695		6,397,695
Management and general	456,502		456,502
Fundraising	<u>364,316</u>		<u>364,316</u>
Total expenses	<u>7,218,513</u>		<u>7,218,513</u>
CHANGES IN NET ASSETS	694,250	(904,089)	(209,839)
Net assets, beginning of year	<u>1,766,006</u>	<u>1,569,302</u>	<u>3,335,308</u>
Net assets, end of year	<u>\$ 2,460,256</u>	<u>\$ 665,213</u>	<u>\$ 3,125,469</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:			
Nonfinancial contributions of resale shop inventory (Note 9)	\$ 1,458,023		\$ 1,458,023
Sales of donated items	1,409,032		1,409,032
Costs of goods sold	<u>(1,409,032)</u>		<u>(1,409,032)</u>
Net revenue from resale shop	1,458,023		1,458,023
Contributed cash and other financial assets:			
Government (Note 8)		\$ 731,452	731,452
Non-government	825,723	2,027,951	2,853,674
Contributed nonfinancial assets (Note 9):			
Government (Note 8)		406,743	406,743
Non-government	2,162,994		2,162,994
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

Statements of Cash Flows for the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (209,839)	\$ 1,516,004
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	87,626	71,649
Amortization of right-of-use asset	143,513	
Contributions restricted for capital campaign	(237,565)	(299,137)
Loss on disposal of asset		19,855
Changes in operating assets and liabilities:		
Contributions receivable	470,707	(825,243)
Prepaid expenses and other assets	(30,026)	27,494
Food pantry inventory	77,986	(35,775)
Resale shop inventory	75,055	(48,992)
Accounts payable and accrued liabilities	71,017	(4,922)
Refundable advance	143,544	
Deferred rent liability		(15,668)
Operating lease liability	<u>(163,183)</u>	<u> </u>
Net cash provided by operating activities	<u>428,835</u>	<u>405,265</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property	<u>(965,732)</u>	<u>(1,652,814)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(23,153)	(197,044)
Proceeds from notes payable	273,818	1,265,291
Proceeds from contributions restricted for capital campaign	<u>243,281</u>	<u>318,968</u>
Net cash provided by financing activities	<u>493,946</u>	<u>1,387,215</u>
NET CHANGE IN CASH	(42,951)	139,666
Cash, beginning of year	<u>1,282,683</u>	<u>1,143,017</u>
Cash, end of year	<u>\$ 1,239,732</u>	<u>\$ 1,282,683</u>
<i>Supplemental disclosure of cash flow information:</i>		
Operating right-of-use assets financed by operating lease liabilities	\$459,398	

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Functional Expenses for the year ended December 31, 2022

	FOOD PANTRY	SOCIAL SERVICES	RESALE SHOP	SEXUAL ABUSE CENTER	DOMESTIC ABUSE CENTER	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Direct assistance	\$ 3,245,478	\$ 960,860		\$ 8,112	\$ 16,940			\$ 4,231,390
Salaries and related benefits	115,526	423,371	\$ 514,478	241,093	131,662	\$ 306,188	\$ 281,926	2,014,244
Rent	29,922	6,601	302,700	2,558	2,558	6,973	6,601	357,913
Supplies	5,313	5,394	22,615	8,856	905	18,697	46,266	108,046
Depreciation	21,285	7,913	40,460	4,028	7,582	4,281	2,241	87,790
Insurance	4,300	10,809	26,414	2,475	2,475	7,249	3,758	57,480
Professional services	4,215	3,127		960	140	41,101		49,543
Bank and credit card fees			34,279		79	12,414	255	47,027
Utilities	8,933	2,497	24,207		368	4,676	1,854	42,535
Telephone	1,243	3,862	10,700	7,367	5,488	5,831	2,477	36,968
Repairs and maintenance	5,160	2,546	10,432	3,337	1,416	11,384	1,319	35,594
Interest	11,107	8,167	1,162	1,633	1,633	4,900	5,227	33,829
Computer	1,833	7,722	2,076	4,108	3,334	10,819	2,016	31,908
Trash	2,987	382	14,733	45	45	2,193	301	20,686
Auto and truck	1,058		10,763					11,821
Mileage reimbursement	189	1,397	663	1,313	591	282	378	4,813
Other	<u>1,969</u>	<u>5,312</u>	<u>7,078</u>	<u>2,499</u>	<u>857</u>	<u>19,514</u>	<u>9,697</u>	<u>46,926</u>
Total expenses	<u>\$ 3,460,518</u>	<u>\$ 1,449,960</u>	<u>\$ 1,022,760</u>	<u>\$ 288,384</u>	<u>\$ 176,073</u>	<u>\$ 456,502</u>	<u>\$ 364,316</u>	7,218,513
Nonfinancial cost of goods sold								1,303,986
Cost of direct donor benefits								<u>32,724</u>
Total								<u>\$ 8,555,223</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
Supplies	819	2,908	9,422	3,876	762	15,665	10,317	43,769
Depreciation	13,505	1,365	39,888	2,831	6,828	2,882	4,350	71,649
Insurance	4,937	1,476	31,949	591	591	4,839	1,460	45,843
Professional services	340	602		1,000		25,390		27,332
Bank and credit card fees		44	30,051			20,209	161	50,465
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
Repairs and maintenance	1,885	2,511	6,619	2,033	2,033	9,465	188	24,734
Computer	1,605	7,031	114	2,633	2,884	10,700	2,498	27,465
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
Nonfinancial 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

Notes to Financial Statements for the years ended December 31, 2022 and 2021

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.

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, 2022, the entire balance of contributions receivable is expected to be received 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 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 nonfinancial 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 nonfinancial 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 \$528,000 have not been recognized at December 31, 2022 because qualifying expenditures have not been incurred and/or performance requirements have not been met.

Contributed nonfinancial assets are recognized at fair value 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 event 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.

NOTE 2 – ADOPTION OF NEW ACCOUNTING STANDARDS

KCM adopted 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. The ASU also requires expanded disclosures related to the amount, timing and uncertainty of cash flows arising from leases. KCM adopted the new standard effective January 1, 2022 using the modified retrospective method. Therefore, comparative information for fiscal year 2021 has not been restated and continues to be reported under Accounting Standards Codification (ASC) 840. There was no effect on beginning net assets for the year ended December 31, 2021.

KCM also adopted the amendments of ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendments have been applied on a retrospective basis to the financial statements for the year ended December 31, 2022. Adoption of this ASU expanded the presentation and disclosures related to contributions, but did not have an impact on net assets.

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>2022</u>	<u>2021</u>
Financial assets:		
Cash	\$ 1,239,732	\$ 1,282,683
Contributions receivable	<u>636,039</u>	<u>1,112,462</u>
Total financial assets	1,875,771	2,395,145
Less financial assets not available for general expenditure:		
Donor-restricted funds not expected to be used within one year	(501)	(281,184)
Cash and contributions receivable restricted for capital projects		(476,374)
Board-designated for operating reserves	<u>(350,000)</u>	<u>(350,000)</u>
Total financial assets available for general expenditure	<u>\$ 1,525,270</u>	<u>\$ 1,287,587</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 65-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.

NOTE 4 – OPERATING LEASES

KCM leases office and retail space and equipment under noncancelable operating lease agreements. Right-of-use assets are recognized at the present value of the lease payments at the inception of the lease adjusted, as appropriate, for certain other payments and allowances related to obtaining the lease and placing the asset in service. Operating lease right-of-use assets are amortized so that lease costs remain constant over the lease term.

KCM adopted the following policy elections in connection with adoption of the new lease accounting standards:

- Short-term leases – KCM has elected to not apply the new guidance to leases with terms of 12 months or less. Instead, these leases are recognized as expense on a straight-line basis over the lease term.
- Discount rates – KCM elected to use its incremental borrowing rate as the discount rate when the rate implicit in a lease is not readily determinable.
- Lease and non-lease components – KCM elected the practical expedient to choose whether to separate non-lease components from lease components by class of underlying asset or account for them as a single lease component.

During 2022, lease costs associated with operating leases are as follows:

Operating lease costs:	
Office and copier expense	\$ 225,865
Short-term lease costs	<u>53,572</u>
Total lease costs	<u>\$ 279,437</u>

During 2021, office and copier lease expense was \$376,518.

During the year ended December 31, 2022, cash paid for amounts included in the measurement of operating lease liabilities was \$176,041.

As of December 31, 2022, the weighted-average remaining lease term for all operating leases is 44 months. The weighted-average discount rate associated with operating leases as of December 31, 2022 is 3.6%.

Undiscounted cash flows related to operating leases as of December 31, 2022 are as follows:

2023	\$ 260,154
2024	265,271
2025	116,106
2026	102,872
2027	<u>87,403</u>
Total undiscounted cash flows	831,806
Less discount to present value	<u>(57,513)</u>
Total discount present value of lease liabilities	<u>\$ 774,293</u>

NOTE 5 – PROPERTY

Property consists of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 1,065,273	\$ 1,065,273
Building and improvements	1,422,318	543,852
Equipment	141,125	122,081
Furniture and fixtures	131,804	108,946
Leasehold improvements	151,788	146,675
Vehicles	<u>142,423</u>	<u>143,585</u>
Total property, at cost	3,054,731	2,130,412
Accumulated depreciation	<u>(301,016)</u>	<u>(213,390)</u>
Property, net	<u>\$ 2,753,715</u>	<u>\$ 1,917,022</u>

NOTE 6 – NOTES PAYABLE

KCM had a \$50,000 revolving line of credit with a bank that expired in February 2022. The line of credit had no balance at December 31, 2022 and 2021. In April 2023, the \$50,000 revolving line of credit was renewed.

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

KCM entered into a loan agreement with a bank in February 2021. Proceeds from the loan are being used to finance the purchase and renovation of a building. The loan bears interest at 3.75%. Interest was due monthly until March 2022 when principal and accrued interest became due monthly. The loan matures in February 2031 and is secured by the property purchased. The final construction draw of approximately \$274,000 was made in 2022 with completion of renovations. At December 31, 2022, the outstanding principal balance was \$1,337,078.

Future payments at December 31, 2022 are due as follows:

2023	\$ 54,775
2024	56,402
2025	52,346
2026	52,259
2027	54,281
Thereafter	<u>1,085,321</u>
Total	<u>\$ 1,355,384</u>

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2022</u>	<u>2021</u>
Use in future periods	\$ 254,000	\$ 430,660
Rent, mortgage and other direct assistance	242,691	451,920
Case worker salaries	109,520	110,346
Food pantry	43,484	57,846
School supplies	957	6,867
Seniors assistance	604	14,805
Capital campaign		476,374
Other	<u>13,957</u>	<u>20,484</u>
Total net assets with donor restrictions	<u>\$ 665,213</u>	<u>\$ 1,569,302</u>

NOTE 8 – 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 during the years ended December 31 include the following:

	<u>2022</u>	<u>2021</u>
U. S. Department of Agriculture (food commodities)	\$ 411,375	\$ 235,550
U. S. Department of Homeland Security (food commodities)	72,949	171,193
U. S. Department of Homeland Security (other than food commodities)	512,498	182,013
U. S. Department of Justice	136,650	131,065
U. S. Department of Housing and Urban Development	48,753	35,430
U. S. Department of Treasury	298,994	16,586
State and local grants	<u>215,987</u>	<u>366,358</u>
Total government grants	<u>\$ 1,697,206</u>	<u>\$ 1,138,195</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 9 – CONTRIBUTED NONFINANCIAL CONTRIBUTIONS

CONTRIBUTED NONFINANCIAL ASSETS	MONETIZED OR UTILIZED IN PROGRAMS/ ACTIVITIES	DONOR RESTRICTIONS	VALUATION TECHNIQUES AND INPUTS	FISCAL YEAR 2022	FISCAL YEAR 2021
Food commodities (non-government funded)	Utilized for program services	None	Fair value based on average price per pound estimated by the most recent Feeding America Product Valuation Survey.	\$2,638,423	\$2,141,986
Food commodities (government funded)	Utilized for program services	Distribution to eligible households	Fair value based on average price per pound estimated by the most recent Feeding America Product Valuation Survey.	\$484,324	\$406,743
Retail shop inventory	Utilized for program services	None	Fair value estimated based on selling price of similar goods.	\$1,228,889	\$1,458,023
Direct assistance food and clothing	Utilized for program services	None	Fair value at the date of receipt based on current rates for similar items.	\$39,975	\$21,008
Other	Utilized for program services, management and general and fundraising	None	Fair value estimated based on selling price of similar goods and services.	\$30,643	
Total contributed nonfinancial assets				<u>\$4,422,254</u>	<u>\$4,027,760</u>

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 11, 2023, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than the renewal of the line of credit disclosed in Note 6, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.