

Katy Christian Ministries

Financial Statements
and Single Audit Reports
for the year ended December 31, 2023

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, 2023 and 2022, 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, 2023 and 2022, 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.

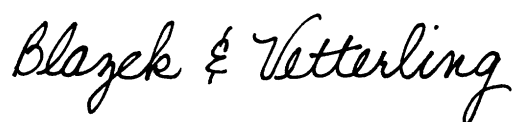
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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, 2023 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 June 20, 2024 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.



June 20, 2024

Katy Christian Ministries

Statements of Financial Position as of December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 477,522	\$ 1,239,732
Accounts receivable	9,637	
Receivable from sale of easement	180,118	
Certificate of deposit	250,000	
Contributions receivable:		
Government grants	174,003	415,923
Other	159,194	220,116
Prepaid expenses and other assets	48,491	64,180
Food pantry inventory	104,305	123,941
Resale shop inventory	70,340	87,775
Operating right-of-use assets <i>(Note 3)</i>	502,970	717,496
Property, net <i>(Note 4)</i>	<u>2,664,189</u>	<u>2,753,715</u>
TOTAL ASSETS	<u>\$ 4,640,769</u>	<u>\$ 5,622,878</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 203,150	\$ 224,188
Refundable advance	1,841	143,544
Notes payable <i>(Note 5)</i>	1,324,963	1,355,384
Operating lease liabilities <i>(Note 3)</i>	<u>538,090</u>	<u>774,293</u>
Total liabilities	<u>2,068,044</u>	<u>2,497,409</u>
Commitments and contingencies <i>(Notes 5 and 7)</i>		
Net assets:		
Without donor restrictions	2,229,321	2,460,256
With donor restrictions <i>(Note 6)</i>	<u>343,404</u>	<u>665,213</u>
Total net assets	<u>2,572,725</u>	<u>3,125,469</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,640,769</u>	<u>\$ 5,622,878</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Activities for the year ended December 31, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Resale shop revenues:			
Nonfinancial contributions of resale shop inventory (Note 8)	\$ 1,427,024		\$ 1,427,024
Sales of donated items	1,460,946		1,460,946
Cost of goods sold	<u>(1,460,946)</u>		<u>(1,460,946)</u>
Net revenue from resale shop	1,427,024		1,427,024
Contributed cash and other financial assets:			
Government (Note 7)		\$ 1,069,249	1,069,249
Non-government	580,202	744,327	1,324,529
Contributed nonfinancial assets (Note 8):			
Government		391,776	391,776
Non-government	3,327,910		3,327,910
Special event	237,235		237,235
Cost of direct donor benefits	(39,272)		(39,272)
Gain on sale of easement	<u>124,933</u>		<u>124,933</u>
Total revenue	5,658,032	2,205,352	7,863,384
Net assets released from restrictions:			
Program expenditures	<u>2,527,161</u>	<u>(2,527,161)</u>	
Total	<u>8,185,193</u>	<u>(321,809)</u>	<u>7,863,384</u>
EXPENSES:			
Program services:			
Food Pantry	3,884,115		3,884,115
Social Services	1,603,742		1,603,742
Resale Shop	1,183,539		1,183,539
Sexual Abuse Center	302,552		302,552
Domestic Abuse Center	<u>242,085</u>		<u>242,085</u>
Total program services	7,216,033		7,216,033
Management and general	811,142		811,142
Fundraising	<u>388,953</u>		<u>388,953</u>
Total expenses	<u>8,416,128</u>		<u>8,416,128</u>
CHANGES IN NET ASSETS	(230,935)	(321,809)	(552,744)
Net assets, beginning of year	<u>2,460,256</u>	<u>665,213</u>	<u>3,125,469</u>
Net assets, end of year	<u>\$ 2,229,321</u>	<u>\$ 343,404</u>	<u>\$ 2,572,725</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Activities for the year ended December 31, 2022

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Resale shop revenues:			
Nonfinancial contributions of resale shop			
inventory <i>(Note 8)</i>	\$ 1,228,889		\$ 1,228,889
Sales of donated items	1,303,986		1,303,986
Costs 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 <i>(Note 7)</i>		\$ 1,212,882	1,212,882
Non-government	465,164	722,155	1,187,319
Contributed nonfinancial assets <i>(Note 8)</i> :			
Government		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

Statements of Cash Flows for the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (552,744)	\$ (209,839)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	122,835	87,626
Amortization of right-of-use asset	214,526	143,513
Contributions restricted for capital campaign	(6,559)	(237,565)
Receivable from sale of easement	(180,118)	
Gain on disposal of property	(114,337)	
Changes in operating assets and liabilities:		
Accounts receivable	(9,637)	
Contributions receivable	302,842	470,707
Prepaid expenses and other assets	15,689	(30,026)
Food pantry inventory	19,636	77,986
Resale shop inventory	17,435	75,055
Accounts payable and accrued liabilities	(21,038)	71,017
Refundable advance	(141,703)	143,544
Operating lease liabilities	<u>(236,203)</u>	<u>(163,183)</u>
Net cash provided (used) by operating activities	<u>(569,376)</u>	<u>428,835</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property	(99,090)	(965,732)
Proceeds on sale of property	180,118	
Purchase of certificate of deposit	<u>(250,000)</u>	<u> </u>
Net cash used by investing activities	<u>(168,972)</u>	<u>(965,732)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(42,746)	(23,153)
Proceeds from notes payable	12,325	273,818
Proceeds from contributions restricted for capital campaign	<u>6,559</u>	<u>243,281</u>
Net cash provided (used) by financing activities	<u>(23,862)</u>	<u>493,946</u>
NET CHANGE IN CASH	(762,210)	(42,951)
Cash, beginning of year	<u>1,239,732</u>	<u>1,282,683</u>
Cash, end of year	<u>\$ 477,522</u>	<u>\$ 1,239,732</u>

Supplemental disclosure of cash flow information:

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, 2023

	FOOD PANTRY	SOCIAL SERVICES	RESALE SHOP	SEXUAL ABUSE CENTER	DOMESTIC ABUSE CENTER	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Direct assistance	\$ 3,631,923	\$ 956,408		\$ 2,403	\$ 57,852			\$ 4,648,586
Salaries and related benefits	140,222	573,374	\$ 608,379	258,292	154,142	\$ 313,929	\$ 321,383	2,369,721
Rent			343,867	2,558	2,558			348,983
Depreciation	45,649	13,791	41,658	5,615	7,502	4,116	4,504	122,835
Repairs and maintenance	10,676	2,952	27,028	4,505	2,004	26,329	1,141	74,635
Insurance	4,805	9,095	25,893	3,895	3,596	24,212	3,105	74,601
Interest	17,026	12,842	767	2,541	2,541	7,281	7,979	50,977
Utilities	5,974	4,393	30,805	879	879	2,636	2,811	48,377
Bank and credit card fees			29,089		9	7,850	9,424	46,372
Professional services	4,883	2,344		1,000	610	36,955	69	45,861
Supplies	4,991	8,779	14,695	4,731	883	5,813	5,711	45,603
Computer	2,717	8,634	6,167	5,014	2,899	11,696	2,321	39,448
Telephone	1,214	5,581	11,760	7,725	5,158	3,466	2,308	37,212
Trash	9,881	823	18,071			823	823	30,421
Auto and truck	2,992		12,095					15,087
Mileage reimbursement	112	2,277	431	1,616	597	192	263	5,488
Other	<u>1,050</u>	<u>2,449</u>	<u>12,834</u>	<u>1,778</u>	<u>855</u>	<u>365,844</u>	<u>27,111</u>	<u>411,921</u>
Total expenses	<u>\$ 3,884,115</u>	<u>\$ 1,603,742</u>	<u>\$ 1,183,539</u>	<u>\$ 302,552</u>	<u>\$ 242,085</u>	<u>\$ 811,142</u>	<u>\$ 388,953</u>	8,416,128
Nonfinancial cost of goods sold								1,460,946
Cost of direct donor benefits								<u>39,272</u>
Total								<u>\$ 9,916,346</u>

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
Depreciation	21,285	7,913	40,460	4,028	7,582	4,281	2,241	87,790
Repairs and maintenance	5,160	2,546	10,432	3,337	1,416	11,384	1,319	35,594
Insurance	4,300	10,809	26,414	2,475	2,475	7,249	3,758	57,480
Interest	11,107	8,167	1,162	1,633	1,633	4,900	5,227	33,829
Utilities	8,933	2,497	24,207		368	4,676	1,854	42,535
Bank and credit card fees			34,279		79	12,414	255	47,027
Professional services	4,215	3,127		960	140	41,101		49,543
Supplies	5,313	5,394	22,615	8,856	905	18,697	46,266	108,046
Computer	1,833	7,722	2,076	4,108	3,334	10,819	2,016	31,908
Telephone	1,243	3,862	10,700	7,367	5,488	5,831	2,477	36,968
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

Notes to Financial Statements for the years ended December 31, 2023 and 2022

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.

Certificate of deposit is valued at face value plus accrued interest. The certificate was purchased December 28, 2023 and matures August 2024.

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, 2023, 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 contributions are 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 \$499,000 have not been recognized at December 31, 2023 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 – 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>2023</u>	<u>2022</u>
Financial assets:		
Cash	\$ 477,522	\$ 1,239,732
Receivable from sale of easement	180,118	
Certificate of deposit	250,000	
Contributions receivable	<u>333,197</u>	<u>636,039</u>
Total financial assets	1,240,837	1,875,771
Less financial assets not available for general expenditure:		
Donor-restricted funds not expected to be used within one year		(501)
Board-designated for operating reserves	<u>(350,000)</u>	<u>(350,000)</u>
Total financial assets available for general expenditure	<u>\$ 890,837</u>	<u>\$ 1,525,270</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 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 3 – 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.

Lease costs associated with operating leases are as follows:

	<u>2023</u>	<u>2022</u>
Operating lease costs:		
Office and copier expense	\$ 238,476	\$ 225,865
Short-term lease costs		<u>53,572</u>
Total lease costs	<u>\$ 238,476</u>	<u>\$ 279,437</u>

During the years ended December 31, 2023 and 2022, cash paid for amounts included in the measurement of operating lease liabilities was \$167,611 and \$176,041, respectively.

The weighted-average lease term and discount rates are as follows:

	<u>2023</u>	<u>2022</u>
Weighted-average remaining/lease term	35 months	44 months
Weighted-average discount rate	3.7%	3.6%

Undiscounted cash flows related to operating leases as of December 31, 2023 are as follows:

2024	\$ 265,271
2025	116,106
2026	102,872
2027	<u>87,403</u>
Total undiscounted cash flows	571,652
Less discount to present value	<u>(33,562)</u>
Total discount present value of lease liabilities	<u>\$ 538,090</u>

NOTE 4 – PROPERTY

Property consists of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 1,012,273	\$ 1,065,273
Building and improvements	1,473,953	1,422,318
Equipment	141,393	141,125
Furniture and fixtures	134,542	131,804
Leasehold improvements	154,049	151,788
Vehicles	<u>141,656</u>	<u>142,423</u>
Total property, at cost	3,057,866	3,054,731
Accumulated depreciation	<u>(393,677)</u>	<u>(301,016)</u>
Property, net	<u>\$ 2,664,189</u>	<u>\$ 2,753,715</u>

NOTE 5 – NOTES PAYABLE

KCM has a \$50,000 revolving line of credit with a bank that expires in November 2024. The line of credit had no balance at December 31, 2023 or 2022.

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, 2023, the outstanding principal balance was \$1,302,468.

Future payments at December 31, 2023 are due as follows:

2024	\$ 68,727
2025	52,386
2026	52,259
2027	54,281
2028	56,266
Thereafter	<u>1,041,044</u>
Total	<u>\$ 1,324,963</u>

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2023</u>	<u>2022</u>
Rent, mortgage and other direct assistance	\$ 167,247	\$ 242,691
Case worker salaries	98,533	109,520
Food pantry	34,972	43,484
School supplies	7,566	957
Capital campaign	6,559	
Seniors' assistance		604
Use in future periods		254,000
Other	<u>28,527</u>	<u>13,957</u>
Total net assets with donor restrictions	<u>\$ 343,404</u>	<u>\$ 665,213</u>

NOTE 7 – 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>2023</u>	<u>2022</u>
U. S. Department of Agriculture (food commodities)	\$ 391,776	\$ 411,375
U. S. Department of Treasury	337,648	298,994
U. S. Department of Homeland Security (other than food commodities)	311,664	512,498
State and local grants	260,020	215,987
U. S. Department of Justice	159,917	136,650
U. S. Department of Homeland Security (food commodities)		72,949
U. S. Department of Housing and Urban Development	<u> </u>	<u>48,753</u>
Total government grants	<u>\$ 1,461,025</u>	<u>\$ 1,697,206</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 8 – CONTRIBUTED NONFINANCIAL CONTRIBUTIONS

CONTRIBUTED NONFINANCIAL ASSETS	MONETIZED OR UTILIZED IN PROGRAMS/ ACTIVITIES	DONOR RESTRICTIONS	VALUATION TECHNIQUES AND INPUTS	FISCAL YEAR <u>2023</u>	FISCAL YEAR <u>2022</u>
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.	\$3,190,798	\$2,638,423
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.	\$391,776	\$484,324
Resale shop inventory	Sold in resale shop	None	Fair value estimated based on selling price of similar goods.	\$1,427,024	\$1,228,889

CONTRIBUTED NONFINANCIAL ASSETS	MONETIZED OR UTILIZED IN PROGRAMS/ ACTIVITIES	DONOR RESTRICTIONS	VALUATION TECHNIQUES AND INPUTS	FISCAL YEAR 2023	FISCAL YEAR 2022
Direct assistance food and clothing	Utilized for program services	None	Fair value at the date of receipt based on current rates for similar items.	\$126,680	\$39,975
Other	Utilized for program services, management and general and fundraising	None	Fair value estimated based on selling price of similar goods and services.	\$10,432	\$30,643
Total contributed nonfinancial assets				<u>\$5,146,710</u>	<u>\$4,422,254</u>

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 20, 2024, 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 5, 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, 2023

<u>GRANTOR</u> <u>Pass-through Grantor</u> <u>Program Title & Period</u>	<u>Assistance</u> <u>Listing</u> <u>Number</u>	<u>Contract</u> <u>Number</u>	<u>Award</u> <u>Amount</u>	<u>Federal</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 01/01/23 – 12/31/23	10.569	30517	N/A	\$ <u>400,870</u>
Total U. S. Department of Agriculture				<u>400,870</u>
U. S. DEPARTMENT OF JUSTICE				
Passed through State of Texas Office of the Governor:				
Crime Victim Assistance				
#2 10/01/22 – 09/30/23	16.575	1521520	\$159,377	110,402
#3 10/01/23 – 09/30/24	16.575	1521521	\$158,477	<u>49,515</u>
Total U. S. Department of Justice				<u>159,917</u>
U. S. DEPARTMENT OF HOMELAND SECURITY				
Passed through Alliance of Community Assistance Ministries:				
Emergency Food and Shelter National Board Program				
#4 01/01/21 – 02/28/24	97.024	782800-047	\$551,291	143,544
#5 11/01/22 – 02/28/24	97.024	782800-047	\$169,960	<u>168,120</u>
Total U. S. Department of Homeland Security				<u>311,664</u>
U. S. DEPARTMENT OF TREASURY				
Passed through Alliance of Community Assistance Ministries:				
COVID-19 – Emergency Rental Assistance Program				
#6 07/01/22 – 02/29/24	21.023	ACAM HSS 2022-2024	\$154,100	104,653
Passed through Fort Bend County:				
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds				
#7 03/01/21 – 12/31/24	21.027	N/A	\$500,000	<u>232,995</u>
Total U. S. Department of Treasury				<u>337,648</u>
TOTAL FEDERAL AWARDS				<u>\$ 1,210,099</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, 2023

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 (\$1.93 in 2023). At December 31, 2023, \$28,021 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, 2023, 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 June 20, 2024.

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

June 20, 2024

**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, 2023. KCM's major federal program is 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 its major federal program for the year ended December 31, 2023.

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

June 20, 2024

Katy Christian Ministries

Schedule of Findings and Questioned Costs for the year ended December 31, 2023

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

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).



***“Transforming lives through
God’s grace and the
generosity of the
community.”***

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Summary Schedule of Prior Audit Findings

The following audit findings for the year ended December 31, 2022, are required to be reported in accordance with 2 CFR §200.511.

Section II – Financial Statement Findings

Finding #2022-001 – Significant Deficiency

Condition and context: Adjustments to contributions receivable were required to properly state financial statements in accordance with GAAP. The current year change in net assets was decreased by approximately \$93,400 as a result of the adjustments.

Recommendation: Policies and procedures should be designed and implemented to ensure that transactions are recognized in the appropriate period in the accounting records and accruals are recorded.

Planned corrective action: Management agrees with the finding. The Director of Finance position has been transitioned to someone with extensive knowledge of GAAP, including accrual-based accounting, and experience in multifaceted sources of funding. The new Director of Finance will review grant documentation with the Director of Grants and with Program Directors to ensure knowledge of the grant before recording activity in the financial statements.

Management’s 2023 follow-up response: The corrective action plan was implemented. This finding was successfully resolved in 2023.

Section III – Federal Award Findings and Questioned Costs

Finding #2022-002 – Significant Deficiency

Condition and context: Same as finding #2022-001.

Recommendation: Same as finding #2022-001.

Planned corrective action: Management agrees with the finding. The corrective action plan was the same as finding #2022-001.

Management’s 2023 follow-up response: The corrective action plan was implemented. This finding was successfully resolved in 2023.