

THE WORKFAITH CONNECTION
FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The WorkFaith Connection

We have audited the accompanying financial statements of The WorkFaith Connection (a Texas non-profit corporation), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The WorkFaith Connection as of December 31, 2012 and 2011, and the changes in its nets assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Harper & Pearson Company, P.C.

Houston, Texas
August 8, 2013

THE WORKFAITH CONNECTION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 17,874	\$ 155,656
Pledges receivable	131,521	188,368
Other receivables	22,500	26,259
Property and equipment, net	67,127	45,501
TOTAL ASSETS	\$ 239,022	\$ 415,784
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 37,086	\$ 17,882
Compensation liability	17,629	14,699
TOTAL LIABILITIES	54,715	32,581
NET ASSETS		
Unrestricted	42,249	244,041
Temporarily restricted	142,058	139,162
TOTAL NET ASSETS	184,307	383,203
TOTAL LIABILITIES AND NET ASSETS	\$ 239,022	\$ 415,784

THE WORKFAITH CONNECTION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Total
Support and Other Revenues			
Contributions	\$ 1,153,627	\$ 119,558	\$ 1,273,185
Contributions - In-kind	59,219	-	59,219
Investment income	800	-	800
Net assets released from restrictions	116,662	(116,662)	-
Total Support and Other Revenues	1,330,308	2,896	1,333,204
Expenses			
Program	1,250,763	-	1,250,763
Fundraising	152,968	-	152,968
General and administrative	128,369	-	128,369
Total Expenses	1,532,100	-	1,532,100
Change in Net Assets	(201,792)	2,896	(198,896)
Net Assets, Beginning of Year	244,041	139,162	383,203
Net Assets, End of Year	\$ 42,249	\$ 142,058	\$ 184,307

See accompanying notes.

THE WORKFAITH CONNECTION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Total
Support and Other Revenues			
Contributions	\$ 1,285,375	\$ 116,662	\$ 1,402,037
Contributions - In-kind	77,609	22,500	100,109
Investment income	41	-	41
Net assets released from restrictions	102,088	(102,088)	-
Total Support and Other Revenues	1,465,113	37,074	1,502,187
Expenses			
Program	1,075,735	-	1,075,735
Fundraising	153,658	-	153,658
General and administrative	115,153	-	115,153
Total Expenses	1,344,546	-	1,344,546
Change in Net Assets	120,567	37,074	157,641
Net Assets, Beginning of Year	123,474	102,088	225,562
Net Assets, End of Year	\$ 244,041	\$ 139,162	\$ 383,203

THE WORKFAITH CONNECTION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Program</u>	<u>Fundraising</u>	<u>Management</u>	<u>Total</u>
Salaries and related expenses	\$ 947,113	\$ 83,422	\$ 97,783	\$ 1,128,318
Professional development	19,003	1,265	1,235	21,503
Supplies	37,429	1,589	795	39,813
Printing and postage	24,665	7,938	1,426	34,029
Graduate support	20,532	885	1,147	22,564
Insurance	6,198	264	132	6,594
Marketing	15,502	1,504	388	17,394
Meetings and events	-	26,299	-	26,299
Travel	5,248	355	337	5,940
Professional and contract services	9,788	21,387	20,972	52,147
Occupancy	114,446	2,572	1,287	118,305
Telephone and utilities	11,800	799	758	13,357
Software and electronic equipment	9,145	3,417	588	13,150
Depreciation	29,894	1,272	636	31,802
Other	-	-	885	885
Total	<u>\$ 1,250,763</u>	<u>\$ 152,968</u>	<u>\$ 128,369</u>	<u>\$ 1,532,100</u>

THE WORKFAITH CONNECTION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Program</u>	<u>Fundraising</u>	<u>Management</u>	<u>Total</u>
Salaries and related expenses	\$ 789,209	\$ 78,660	\$ 95,323	\$ 963,192
Professional development	4,528	359	467	5,354
Supplies	33,318	1,418	709	35,445
Printing and postage	20,543	9,184	426	30,153
Graduate support	20,988	-	-	20,988
Insurance	8,248	351	175	8,774
Marketing	7,587	10,500	65	18,152
Meetings and events	-	16,700	-	16,700
Travel	5,434	-	-	5,434
Professional and contract services	16,985	26,416	12,190	55,591
Occupancy	88,218	1,456	728	90,402
Telephone and utilities	13,542	1,192	1,240	15,974
Software and electronic equipment	16,413	4,962	1,407	22,782
Depreciation	47,935	2,289	1,479	51,703
Other	2,787	171	944	3,902
Total	<u>\$ 1,075,735</u>	<u>\$ 153,658</u>	<u>\$ 115,153</u>	<u>\$ 1,344,546</u>

THE WORKFAITH CONNECTION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (198,896)	\$ 157,641
Adjustments to reconcile change in net assets to net cash (used) provided by operations:		
Depreciation	31,802	51,703
In-kind contributions of property and equipment	-	(16,229)
Change in operating assets and liabilities:		
Pledges receivable	56,847	(36,249)
Other receivables	3,759	(26,258)
Accounts payable and accrued expenses	19,204	(66,063)
Compensation liability	2,930	7,509
 Total adjustments	 <u>114,542</u>	 <u>(85,587)</u>
 Net cash (used) provided by operating activities	 <u>(84,354)</u>	 <u>72,054</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(53,428)</u>	<u>(1,897)</u>
 Net cash used by investing activities	 <u>(53,428)</u>	 <u>(1,897)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Borrowings on lines of credit	50,000	-
Repayments on lines of credit	<u>(50,000)</u>	<u>-</u>
 Net cash used by financing activities	 <u>-</u>	 <u>-</u>
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	 (137,782)	 70,157
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>155,656</u>	 <u>85,499</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 17,874</u>	 <u>\$ 155,656</u>

See accompanying notes.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - The WorkFaith Connection (WorkFaith) was organized on February 14, 2006 as a Texas Non-Profit Corporation for the purpose of assisting men and women find and keep full-time employment.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk - Financial instruments which subject WorkFaith to concentrations of credit risk consist principally of cash and pledges and other receivables. WorkFaith places its cash with high credit quality financial institutions. Deposits with financial institutions may exceed the amount of federal deposit insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, WorkFaith periodically evaluates the stability of the financial institutions.

No collateral or other security is required to support pledges and other receivables. An allowance for doubtful accounts is established as needed based upon factors surrounding the credit risk of specific donors and debtors, historical trends and other information. Management estimates that all receivables are collectible, thus no allowance for uncollectible amounts has been recorded. For the year ended December 31, 2012, 17% of contributions were received from two individuals and 15% was received from The United Way of Greater Houston. At December 31, 2012, 91% of pledges receivable were due from The United Way of Greater Houston. For the year ended December 31, 2011, 22% of contributions were received from two individuals and 13% was received from The United Way of Greater Houston. At December 31, 2011, 62% of pledges receivable were due from The United Way of Greater Houston.

Cash and Cash Equivalents - Cash and cash equivalents generally consist of demand deposits.

Property and Equipment - Property and equipment are stated at cost when purchased or estimated fair market value at the date of donation. Additions greater than \$1,000 individually, or \$3,000 as a lot, are capitalized and depreciated using the straight-line method over the following estimated useful lives of the assets.

Leasehold improvements	Life of the lease
Vehicles	3 - 5 years
Furniture and fixtures	5 - 7 years
Electronic equipment	3 - 7 years
Software	3 - 5 years

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Maintenance and repairs are expensed as incurred. When property and equipment is retired or otherwise disposed of, the cost thereof and the applicable accumulated depreciation is removed from the respective accounts and the resulting gain or loss is reflected in earnings.

Contributions - Contributions are recorded when received or upon an unconditional promise to give from the donor. All contributions are considered to be available for unrestricted use unless restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support and an increase to the respective net asset class. However, if a restriction is fulfilled in the same time period in which the contribution is received, WorkFaith reports the support as unrestricted.

In-Kind Contributions - Contributions of non-cash assets are recorded at their fair values in the period received. Contributions of services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

In addition, WorkFaith uses non-professional volunteers in order to administer many areas of the job-readiness program. While these volunteer hours do not qualify to be recorded as in-kind contributions per GAAP, they are significant in that they reduce program related salary costs that would otherwise be required were the volunteers not available.

Functional Expenses - Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, number of staff or other reasonable methods for allocating WorkFaith's multiple functional expenditures.

Income Taxes - WorkFaith is a nonprofit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, WorkFaith is subject to taxes on unrelated business income. During 2012, there was no unrelated business income.

WorkFaith believes that all significant tax positions utilized by WorkFaith will more likely than not be sustained upon examination. As of December 31, 2012, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2009 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be included in general and administrative expenses in the statement of activities.

Subsequent Events - WorkFaith has evaluated subsequent events through August 8, 2013, the date the financial statements were available to be issued. No subsequent events occurred, which require adjustment or disclosure to the financial statements at December 31, 2012.

THE WORKFAITH CONNECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE B RELATED-PARTY TRANSACTIONS

WorkFaith contracts part-time hourly assistance through MEMCO, a staffing company owned and operated by the chairman of WorkFaith's Board of Directors. Expenses related to the contract labor through MEMCO during 2012 and 2011 amounted to \$30,978 and \$33,274, respectively.

Additionally, during the first 6 months of 2011, MEMCO also provided drug testing and background checks for WorkFaith. MEMCO billed WorkFaith on a monthly basis for these services. Expenses related to background checks and drug tests through MEMCO during 2011 amounted to \$1,439. No charges were made in 2012.

As of December 31, 2012 and 2011, WorkFaith had outstanding accounts payable of \$3,871 and \$2,258, respectively to MEMCO.

In 2012, WorkFaith entered into a line of credit with the Marek Family Foundation, a related party, providing maximum borrowings of \$100,000 with a maturity date of October 1, 2013. There is no interest due on this note. As of December 31, 2012, there were no outstanding balances on the line of credit.

In 2012, WorkFaith also entered into an agreement to lease office space from Dacoma Interests, L.L.C., a related party, for \$6,681 per month through April 30, 2017. Rent amounting to \$20,043 was outstanding at December 31, 2012 (see Note E).

NOTE C PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2012 are all due in less than one year.

NOTE D PROPERTY AND EQUIPMENT

Cost of property and equipment and accumulated depreciation are as follows as of December 31:

	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ 12,979	\$ 158,799
Furniture and fixtures	58,842	18,392
Software	12,479	12,479
Electronic equipment	9,427	9,427
Vehicle	<u>3,500</u>	<u>3,500</u>
	97,227	202,597
Less accumulated depreciation	<u>(30,100)</u>	<u>(157,096)</u>
	<u>\$ 67,127</u>	<u>\$ 45,501</u>

NOTE E LEASES

WorkFaith leases office space from a related party, and equipment under operating leases that expire through April 2017. Net operating lease expense for the years ended December 31, 2012 and 2011 amounted to \$128,515 and \$98,870, respectively. In conjunction with the office space lease, WorkFaith also pays a portion of the monthly operating expenses.

Future minimum payments by year at December 31, 2012 are as follows:

2013		\$	91,628
2014			86,484
2015			82,665
2016			80,171
2017			<u>26,724</u>
		<u>\$</u>	<u>367,672</u>

NOTE F IN-KIND CONTRIBUTIONS/EXPENSES

In-Kind Rent Expense

In January 2011, WorkFaith began operations at a second location in the Main Street Ministries (MSM) Building on Travis Street. This training space was provided by MSM free of rent and certain expenses including utilities, phone charges, etc. The location was virtually fully furnished. WorkFaith determined the fair value of the lease to be \$4,500 per month based on the costs they would pay for similar property. Every month, WorkFaith records a \$4,500 in-kind donation and offsetting expense. Additionally, per the signed agreement, MSM agreed to give WorkFaith a minimum 6-month notice if they ever needed WorkFaith to vacate. This was treated as a 5-month pledge (with the current month representing the 6th month) and was recorded as temporarily restricted revenue in 2011. This receivable of \$22,500 will remain in other receivables until the 6-month notice to vacate has been issued, at which point it will be expensed over the remaining 5 months.

Other In-Kind Expenses

In 2012, in-kind postage was valued at \$5,141. Significant in-kind expenses in 2011 include software and electronic equipment donations valued at \$16,229 and postage donations valued at \$4,462.

NOTE G RETIREMENT PLAN

Effective January 1, 2007, WorkFaith established a 401(k) plan for all eligible employees. All employees who are age 21 and have 1 year of service are eligible to participate. The plan is a defined contribution plan and the investments are selected by the participants. WorkFaith matches 100% of the first 6% of an eligible member's pre-tax contribution. Employer and employee contributions vest immediately.

For the years ended December 31, 2012 and 2011, WorkFaith contributions to the plan amounted to \$14,221 and \$10,451, respectively.