

THE WORKFAITH CONNECTION
FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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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 not-for-profit corporation), which comprise the statements of financial position as of December 31, 2016 and 2015, 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, 2016 and 2015, 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.

Houston, Texas
June 14, 2017

THE WORKFAITH CONNECTION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 679,383	\$ 626,233
Pledges receivable	223,193	210,439
Other receivables	71,020	79,641
Prepaid expenses	16,641	17,121
Property and equipment, net	<u>67,404</u>	<u>45,925</u>
TOTAL ASSETS	<u>\$ 1,057,641</u>	<u>\$ 979,359</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 29,924	\$ 38,100
Compensation liability	<u>18,874</u>	<u>18,311</u>
TOTAL LIABILITIES	<u>48,798</u>	<u>56,411</u>
NET ASSETS		
Unrestricted	763,181	690,040
Temporarily restricted	<u>245,662</u>	<u>232,908</u>
TOTAL NET ASSETS	<u>1,008,843</u>	<u>922,948</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,057,641</u>	<u>\$ 979,359</u>

**THE WORKFAITH CONNECTION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Other Revenues						
Contributions	\$ 2,624,509	\$ 223,162	\$ 2,847,671	\$ 2,540,796	\$ 210,408	\$ 2,751,204
Contributions - In-kind	68,202	-	68,202	61,863	-	61,863
Interest income	2,500	-	2,500	1,500	-	1,500
Other income	5,068	-	5,068	5,248	-	5,248
Net assets released from restrictions	<u>210,408</u>	<u>(210,408)</u>	<u>-</u>	<u>193,662</u>	<u>(193,662)</u>	<u>-</u>
Total Support and Other Revenues	<u>2,910,687</u>	<u>12,754</u>	<u>2,923,441</u>	<u>2,803,069</u>	<u>16,746</u>	<u>2,819,815</u>
Expenses						
Program	2,100,132	-	2,100,132	1,973,002	-	1,973,002
Fundraising	432,575	-	432,575	414,271	-	414,271
General and administrative	<u>304,839</u>	<u>-</u>	<u>304,839</u>	<u>159,243</u>	<u>-</u>	<u>159,243</u>
Total Expenses	<u>2,837,546</u>	<u>-</u>	<u>2,837,546</u>	<u>2,546,516</u>	<u>-</u>	<u>2,546,516</u>
Change in Net Assets	73,141	12,754	85,895	256,553	16,746	273,299
Net Assets, Beginning of Year	<u>690,040</u>	<u>232,908</u>	<u>922,948</u>	<u>433,487</u>	<u>216,162</u>	<u>649,649</u>
Net Assets, End of Year	<u>\$ 763,181</u>	<u>\$ 245,662</u>	<u>\$ 1,008,843</u>	<u>\$ 690,040</u>	<u>\$ 232,908</u>	<u>\$ 922,948</u>

See accompanying notes.

THE WORKFAITH CONNECTION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Program	Fundraising	General and Administrative	Total	Program	Fundraising	General and Administrative	Total
Salaries and related expenses	\$ 1,681,144	\$ 226,676	\$ 233,134	\$ 2,140,954	\$ 1,526,308	\$ 170,140	\$ 117,529	\$ 1,813,977
Professional development	8,438	930	715	10,083	6,457	1,014	397	7,868
Supplies	39,497	4,517	4,036	48,050	44,518	5,407	3,626	53,551
Printing and postage	39,895	4,422	3,481	47,798	29,577	17,534	1,885	48,996
Graduate support	22,357	262	197	22,816	21,216	91	469	21,776
Insurance	8,091	925	827	9,843	7,734	347	189	8,270
Marketing	33,327	2,033	1,525	36,885	24,629	14,488	631	39,748
Meetings and events	29,381	130,732	2,416	162,529	30,752	138,426	527	169,705
Travel	5,512	604	453	6,569	7,377	641	559	8,577
Professional and contract services	36,498	39,217	38,688	114,403	66,562	51,491	23,779	141,832
Occupancy	148,302	16,959	15,155	180,416	156,840	7,562	6,730	171,132
Telephone and utilities	19,275	2,114	1,585	22,974	17,731	2,044	1,288	21,063
Software and electronic equipment	13,884	1,522	1,142	16,548	18,195	4,443	1,313	23,951
Depreciation	14,531	1,662	1,485	17,678	15,106	643	321	16,070
Total	<u>\$ 2,100,132</u>	<u>\$ 432,575</u>	<u>\$ 304,839</u>	<u>\$ 2,837,546</u>	<u>\$ 1,973,002</u>	<u>\$ 414,271</u>	<u>\$ 159,243</u>	<u>\$ 2,546,516</u>

See accompanying notes.

THE WORKFAITH CONNECTION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 85,895	\$ 273,299
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	17,678	16,070
Change in operating assets and liabilities:		
Pledges receivable	(12,754)	(16,746)
Other receivables	8,621	(33,560)
Prepaid expenses	480	(11,121)
Accounts payable and accrued expenses	(8,176)	18,746
Compensation liability	563	2,490
Total adjustments	6,412	(24,121)
Net cash provided by operating activities	92,307	249,178
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(39,157)	(24,564)
Net cash used by investing activities	(39,157)	(24,564)
NET INCREASE IN CASH AND CASH EQUIVALENTS	53,150	224,614
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	626,233	401,619
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 679,383	\$ 626,233

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 not-for-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 years ended December 31, 2016 and 2015, one donor accounted for 8% of total contributions each year and the United Way of Greater Houston accounted for 15% of total contributions each year.

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.

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

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.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Net Assets - At December 31, 2016 and 2015, all temporarily restricted net assets are restricted for future periods.

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 fair value 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 fair value in the period received.

In addition, WorkFaith uses non-professional volunteers 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. There was no unrelated business income during 2016 and 2015.

WorkFaith believes that all significant tax positions utilized by WorkFaith will more likely than not be sustained upon examination. As of December 31, 2016, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2013 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 statements of activities.

Subsequent Events - WorkFaith has evaluated subsequent events through June 14, 2017, 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, 2016.

THE WORKFAITH CONNECTION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE B RELATED-PARTY TRANSACTIONS

WorkFaith contracts part-time hourly assistance through MEMCO, a staffing company owned and operated by the former chairman of WorkFaith's Board of Directors. Expenses related to the contract labor through MEMCO during 2016 and 2015 amounted to \$68,579 and \$113,211, respectively.

As of December 31, 2016 and 2015, WorkFaith had outstanding accounts payable of \$1,722 and \$8,661, respectively to MEMCO.

In 2015, WorkFaith entered into an agreement to lease office space from Dacoma Interests, L.L.C., a related party, for \$10,041 per month through May 31, 2022.

NOTE C PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2016 and 2015 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:

	2016	2015
Electronic equipment	\$ 16,720	\$ 7,225
Furniture and fixtures	102,680	83,406
Leasehold improvements	19,067	12,979
Software	16,779	12,479
Vehicle	3,500	3,500
	158,746	119,589
Less accumulated depreciation	(91,342)	(73,664)
	\$ 67,404	\$ 45,925

NOTE E LEASES

WorkFaith leases office space from a related party, and equipment under operating leases that expire through April 2022 (See Note B). Net operating lease expense for the years ended December 31, 2016 and 2015 amounted to \$206,348 and \$195,509, 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, 2016 are as follows:

2017	147,947
2018	134,703
2019	133,503
2020	122,663
2021	120,495
2022	<u>50,206</u>
	<u>\$ 709,517</u>

NOTE F IN-KIND CONTRIBUTIONS/EXPENSES

In-Kind Rent

In January 2011, WorkFaith began operations at a second location in the Main Street Ministries (MSM) Building on Travis Street, Houston, Texas. This space, furniture and certain expenses including utilities, housekeeping, security, etc. are provided free to WorkFaith by MSM. 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 and temporarily restricted net assets 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 Contributions

Other in-kind contributions include furniture donations.

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, 2016 and 2015, WorkFaith contributions to the plan amounted to \$27,387 and \$19,404, respectively.