THE WORKFAITH CONNECTION

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

C O N T E N T S

HARPER & PEARSON
COMPANY, P.C. CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The WorkFaith Connection
Houston, Texas

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, 2018 and 2017, 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, 2018 and 2017, 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.

Harper & Pearson Company, P.C.

Houston, Texas
June 28, 2019

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	2018	2017
ASSETS		
Cash and cash equivalents	$ 649,458	$ 1,088,414
Pledge receivables	234,193	337,793
Other receivables	114,181	132,911
Prepaid expenses	43,583	19,668
Property and equipment, net	147,159	174,949
TOTAL ASSETS	$ 1,188,574	$ 1,753,735
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 13,362	$ 34,205
Compensation liability	16,779	25,227
TOTAL LIABILITIES	30,141	59,432
NET ASSETS		
Without Donor Restrictions	611,086	1,032,332
With Donor Restrictions	547,347	661,971
TOTAL NET ASSETS	1,158,433	1,694,303
TOTAL LIABILITIES AND NET ASSETS	$ 1,188,574	$ 1,753,735

See accompanying notes.

THE WORKFAITH CONNECTION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Support and Other Revenues						
Contributions	$ 2,147,447	$ 350,000	$ 2,497,447	$ 2,896,909	$ 864,100	$ 3,761,009
Contributions - In-kind	124,050	-	124,050	146,863	-	146,863
Interest income	1,764	-	1,764	2,000	-	2,000
Other income	7,300	-	7,300	6,233	-	6,233
Net assets released from restrictions	464,624	(464,624)	-	447,791	(447,791)	-
Total Support and Other Revenues	2,745,185	(114,624)	2,630,561	3,499,796	416,309	3,916,105
Expenses						
Program	2,388,703	-	2,388,703	2,477,710	-	2,477,710
Fundraising	377,164	-	377,164	396,120	-	396,120
General and administrative	400,564	-	400,564	356,815	-	356,815
Total Expenses	3,166,431	-	3,166,431	3,230,645	-	3,230,645
Change in Net Assets	(421,246)	(114,624)	(535,870)	269,151	416,309	685,460
Net Assets, Beginning of Year	1,032,332	661,971	1,694,303	763,181	245,662	1,008,843
Net Assets, End of Year	$ 611,086	$ 547,347	$ 1,158,433	$ 1,032,332	$ 661,971	$ 1,694,303

See accompanying notes.

	2018				2017			
	Program	Fundraising	General and Administrative	Total	Program	Fundraising	General and Administrative	Total
Salaries and related expenses	$ 1,874,521	$ 180,783	$ 297,557	$ 2,352,861	$ 1,976,114	$ 211,455	$ 280,130	$ 2,467,699
Professional development	4,845	1,346	17,095	23,286	13,786	1,306	1,192	16,284
Supplies	46,172	3,160	3,024	52,356	44,346	4,696	4,201	53,243
Printing and postage	39,245	7,498	4,155	50,898	46,670	4,559	4,138	55,367
Graduate support	7,494	51	83	7,628	26,834	247	225	27,306
Insurance	8,439	732	655	9,826	8,941	947	847	10,735
Marketing	30,857	15,500	327	46,684	47,134	4,107	2,593	53,834
Meetings and events	20,184	108,316	2,089	130,589	27,553	119,734	2,374	149,661
Travel	10,945	545	2,720	14,210	7,995	754	689	9,438
Professional and contract services	30,211	29,022	43,845	103,078	38,781	23,479	38,126	100,386
Occupancy	218,722	18,972	16,973	254,667	167,034	17,688	15,824	200,546
Telephone and utilities	26,233	1,798	2,955	30,986	20,400	1,924	1,757	24,081
Software and electronic equipment	23,057	5,297	5,378	33,732	25,533	2,408	2,200	30,141
Depreciation	47,778	4,144	3,708	55,630	26,589	2,816	2,519	31,924
Total	$ 2,388,703	$ 377,164	$ 400,564	$ 3,166,431	$ 2,477,710	$ 396,120	$ 356,815	$ 3,230,645

See accompanying notes.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (535,870)	$ 685,460
Adjustments to reconcile change in net assets to net cash (used) provided by operations:		
Depreciation	55,630	31,924
In-kind contributions of property and equipment	(4,050)	-
Change in operating assets and liabilities:		
Pledge receivables	103,600	(114,600)
Other receivables	18,730	(61,891)
Prepaid expenses	(23,915)	(3,027)
Accounts payable and accrued expenses	(20,843)	4,281
Compensation liability	(8,448)	6,353
Total adjustments	120,704	(136,960)
Net cash (used) provided by operating activities	(415,166)	548,500
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(23,790)	(139,469)
Net cash used by investing activities	(23,790)	(139,469)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(438,956)	409,031
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,088,414	679,383
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 649,458	$ 1,088,414

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 at year-end and various times during the year exceeded the amount of federal deposit insurance provided on such deposits (approximately $390,000 at December 31, 2018); 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, 2018 and 2017, five donors accounted for 46% and 34% of total contributions, respectively, and the United Way of Greater Houston accounted for 14% and 10% of total contributions, respectively.

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)

Implementation of New Accounting Pronouncement - During 2018, WorkFaith implemented the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *"Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)"*. The ASU amends the current reporting model for nonprofit organizations and enhances required disclosures. The major provisions of the standard applicable to WorkFaith include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions" and (b) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, and (c) expanded disclosure of methods used to determine functional expenses. This ASU became effective for WorkFaith beginning January 1, 2018.

Net Assets - Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions.

Net Assets With Donor Restrictions - Include contributions restricted by the donor for specific purposes or time periods and are comprised of the following:

	2018	2017
Purpose Restricted:		
Technology and training	$ 230,180	$ 241,209
Third office and management infrastruture	30,000	80,000
Total Purpose Restricted	260,180	321,209
Time Restricted:		
Future periods	287,167	340,762
Total Time Restricted	287,167	340,762
Total Net Assets With Donor Restrictions	$ 547,347	$ 661,971

Net Assets Without Donor Restrictions - include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation. Currently there are no such stipulations on any of the net assets without donor restrictions.

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 net assets with donor restrictions 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 an increase to net assets without donor restrictions.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2018 and 2017.

WorkFaith believes that all significant tax positions utilized by WorkFaith will more likely than not be sustained upon examination. As of December 31, 2018, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2015 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.

Functional Expenses - Where possible, expenses are directly charged to the appropriate category. Indirect charges are allocated using the following methods:

Salaries and related benefits are allocated based on estimated time incurred as reported by employees. Occupancy, depreciation, insurance, supplies and materials, printing and postage, marketing (printing) are allocated based on square footage. Software and electronic equipment, telephone and utilities, printing and postage, professional and contract services (computer network support), graduate support (miscellaneous expenses), travel, meetings and events, professional development are allocated based on the percentage of employees serving each function.

Accounting Pronouncement Not Yet Effective - In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, "*Leases (Topic 842)*". Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for WorkFaith for the year beginning January 1, 2020. WorkFaith is currently evaluating the effect the provisions of ASU 2016-02 will have on the financial statements.

Subsequent Events - WorkFaith has evaluated subsequent events through June 28, 2019, 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, 2018.

NOTE B LIQUIDITY

As of December 31, 2018, WorkFaith has available the following assets to meet cash needs for the next fiscal year:

Cash	$ 419,278
Current pledge receivables	234,193
Other receivables	31,181
Assets available	$ 684,652

WorkFaith manages its cash flows through the adherence of budgets created annually and with projection updates every two months. Additionally, WorkFaith prepares weekly minimum cash balance projections for a rolling month. WorkFaith generally relies on contributions from donors to fund its on-going operations. WorkFaith also actively manages its expenses and makes expense reductions based on projected income.

NOTE C PLEDGE RECEIVABLES

The table below sets forth pledge receivables at December 31:

	2018	2017
Receivable in one year or less	$ 234,193	$ 307,793
Receivable in one to five years	-	30,000
	$ 234,193	$ 337,793

Two donors accounted for 100% and 84% of pledge receivables at December 31, 2018 and 2017, respectively.

NOTE D PROPERTY AND EQUIPMENT

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

	2018	2017
Electronic equipment	$ 40,235	$ 35,546
Furniture and fixtures	138,720	134,669
Leasehold improvements	39,972	39,972
Software	103,629	84,529
Vehicle	3,500	3,500
	326,056	298,216
Less accumulated depreciation	(178,897)	(123,267)
	$ 147,159	$ 174,949

NOTE E 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 net assets with donor restrictions until the 6-month notice to vacate has been issued, at which point it will be expensed over the remaining 5 months.

In October 2017, WorkFaith began operations at a third location in the Cornerstone Community on Reed Road, Houston, Texas. This space is provided for free to WorkFaith by the Star of Hope Mission (SOH). WorkFaith determined the fair value of the lease to be $5,500 per month based on the costs they would pay for similar property. Every month, WorkFaith records a $5,500 in-kind donation and offsetting expense. Additionally, per the signed agreement, SOH agreed to give WorkFaith a minimum 12-month notice if they ever needed WorkFaith to vacate. This was treated as an 11-month pledge (with the current month representing the 12th month) and was recorded as temporarily restricted revenue in 2017. This receivable of $60,500 will remain in other receivables and net assets with donor restrictions until the 12-month notice to vacate has been issued, at which point it will be expensed over the remaining 11 months.

Other In-Kind Contributions

Other in-kind contributions include furniture, consulting services, medallions, and equipment.

NOTE F LEASES

WorkFaith leases office space from a related party (see Note G) and equipment under operating leases that expire through April 2022. WorkFaith also receives donated office space (See Note E). Net operating lease expense, including in-kind lease expense, for the years ended December 31, 2018 and 2017 amounted to $283,766 and $227,232, 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, 2018 are as follows:

2019	$ 147,092
2020	136,252
2021	134,084
2022	63,031
2023	10,529
Thereafter	7,897
	$ 498,885

NOTE G RELATED-PARTY TRANSACTIONS

WorkFaith contracts part-time hourly assistance through MEMCO, a staffing company owned and operated by a member of WorkFaith's Board of Directors. Expenses related to the contract labor through MEMCO during 2018 and 2017 amounted to $46,077 and $31,377, respectively. As of December 31, 2018 and 2017, WorkFaith had outstanding accounts payable of $395 and $4,063, respectively to MEMCO.

In 2015, WorkFaith entered into an agreement to lease office space from Dacoma Interests, L.L.C., an entity partially owned by a board member, for $10,041 per month through May 31, 2022.

NOTE H 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, 2018 and 2017, WorkFaith contributions to the plan amounted to $34,367 and $35,350, respectively.