THE WORKFAITH CONNECTION

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

C O N T E N T S

HARPER | PEARSON

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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, 2019 and 2018, 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, 2019 and 2018, 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.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
July 28, 2020

	2019	2018
ASSETS		
Cash and cash equivalents	$ 1,054,735	$ 649,458
Pledge receivables	541,693	234,193
Other receivables	225,420	114,181
Prepaid expenses	44,195	43,583
Property and equipment, net	104,188	147,159
TOTAL ASSETS	$ 1,970,231	$ 1,188,574
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 35,472	$ 13,362
Compensation liability	55,573	16,779
TOTAL LIABILITIES	91,045	30,141
NET ASSETS		
Without Donor Restrictions	905,209	611,086
With Donor Restrictions	973,977	547,347
TOTAL NET ASSETS	1,879,186	1,158,433
TOTAL LIABILITIES AND NET ASSETS	$ 1,970,231	$ 1,188,574

THE WORKFAITH CONNECTION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Support and Other Revenues						
Contributions	$ 2,662,736	$ 847,258	$ 3,509,994	$ 2,147,447	$ 350,000	$ 2,497,447
Contributions - In-kind	120,000	-	120,000	124,050	-	124,050
Interest income	1,880	-	1,880	1,764	-	1,764
Other income	5,842	-	5,842	7,300	-	7,300
Net assets released from restrictions	420,628	(420,628)	-	464,624	(464,624)	-
Total Support and Other Revenues	3,211,086	426,630	3,637,716	2,745,185	(114,624)	2,630,561
Expenses						
Program	2,261,415	-	2,261,415	2,388,703	-	2,388,703
Fundraising	314,799	-	314,799	377,164	-	377,164
General and administrative	340,749	-	340,749	400,564	-	400,564
Total Expenses	2,916,963	-	2,916,963	3,166,431	-	3,166,431
Change in Net Assets	294,123	426,630	720,753	(421,246)	(114,624)	(535,870)
Net Assets, Beginning of Year	611,086	547,347	1,158,433	1,032,332	661,971	1,694,303
Net Assets, End of Year	$ 905,209	$ 973,977	$ 1,879,186	$ 611,086	$ 547,347	$ 1,158,433

See accompanying notes.

THE WORKFAITH CONNECTION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019				2018			
	Program	Fundraising	General and Administrative	Total	Program	Fundraising	General and Administrative	Total
Salaries and related expenses	$ 1,748,254	$ 166,316	$ 247,540	$ 2,162,110	$ 1,874,521	$ 180,783	$ 297,557	$ 2,352,861
Professional development	28,680	3,493	2,763	34,936	4,845	1,346	17,095	23,286
Supplies	24,719	1,623	1,452	27,794	46,172	3,160	3,024	52,356
Printing and postage	27,112	5,722	2,695	35,529	39,245	7,498	4,155	50,898
Graduate support	5,419	-	-	5,419	7,494	51	83	7,628
Insurance	6,752	586	524	7,862	8,439	732	655	9,826
Marketing	39,025	9,263	60	48,348	30,857	15,500	327	46,684
Meetings and events	11,087	93,173	566	104,826	20,184	108,316	2,089	130,589
Travel	16,678	724	567	17,969	10,945	545	2,720	14,210
Professional and contract services	33,986	4,748	58,818	97,552	30,211	29,022	43,845	103,078
Occupancy	224,162	19,445	17,395	261,002	218,722	18,972	16,973	254,667
Telephone and utilities	25,823	2,027	2,616	30,466	26,233	1,798	2,955	30,986
Software and electronic equipment	21,608	3,506	2,020	27,134	23,057	5,297	5,378	33,732
Depreciation	48,110	4,173	3,733	56,016	47,778	4,144	3,708	55,630
Total	$ 2,261,415	$ 314,799	$ 340,749	$ 2,916,963	$ 2,388,703	$ 377,164	$ 400,564	$ 3,166,431

See accompanying notes.

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 720,753	$ (535,870)
Adjustments to reconcile change in net assets to net cash provided (used) by operations:		
Depreciation	56,016	55,630
In-kind contributions of property and equipment	-	(4,050)
Change in operating assets and liabilities:		
Pledge receivables	(307,500)	103,600
Other receivables	(111,239)	18,730
Prepaid expenses	(612)	(23,915)
Accounts payable and accrued expenses	22,110	(20,843)
Compensation liability	38,794	(8,448)
Total adjustments	(302,431)	120,704
Net cash provided (used) by operating activities	418,322	(415,166)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(13,045)	(23,790)
Net cash used by investing activities	(13,045)	(23,790)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	405,277	(438,956)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	649,458	1,088,414
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,054,735	$ 649,458

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 $805,000 at December 31, 2019); 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, 2019 and 2018, one donor accounted for 11% and five donors accounted for 46% of total contributions, respectively, and the United Way of Greater Houston accounted for 10% and 14% of total contributions, respectively.

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

Pledge Receivables - Pledge receivables that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted, if material, to estimate the present value of future cash flows. Estimated discounts at December 31, 2019 were considered immaterial.

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

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.

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.

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.

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 2019 and 2018.

WorkFaith believes that all significant tax positions utilized by WorkFaith will more likely than not be sustained upon examination. As of December 31, 2019, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2016 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.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022. 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 July 28, 2020, the date the financial statements were available to be issued. As a result of the COVID-19 pandemic occurring after December 31, 2019, economic uncertainties have arisen which may negatively affect WorkFaith. While the situation is expected to be temporary, the extent to which COVID-19 may impact the financial condition or results of operations of WorkFaith is uncertain.

On May 2, 2020, WorkFaith obtained a loan in the amount of $425,800, pursuant to the Paycheck Protection Program (the "PPP"). The loan matures on May 2, 2022 and bears interest at a rate of 1% per annum, payable monthly commencing on December 2, 2020. Under the terms of the PPP, the principal balance of the loan is subject to partial or full forgiveness contingent on compliance with certain criteria. The Note may be prepaid by WorkFaith at any time prior to maturity with no prepayment penalties.

No other subsequent events occurred which require adjustment or disclosure to the financial statements at December 31, 2019.

NOTE B LIQUIDITY

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. As of December 31, 2019, WorkFaith has available the following assets to meet cash needs for the next fiscal year:

Cash	$ 1,054,735
Pledge receivables	541,693
Other receivables	225,420
Less net assets with purpose restrictions	(686,810)
Less long term other receivables	(83,000)
Assets available	$ 1,052,038

NOTE C PLEDGE RECEIVABLES

The table below sets forth pledge receivables at December 31:

	2019	2018
Receivable in one year or less	$ 341,693	$ 307,793
Receivable in one to five years	200,000	30,000
	$ 541,693	$ 337,793

100% of pledge receivables are from three and two donors at December 31, 2019 and 2018, respectively.

NOTE D PROPERTY AND EQUIPMENT

Property and equipment cost and accumulated depreciation at December 31 are as follows:

	2019	2018
Electronic equipment	$ 40,235	$ 35,546
Furniture and fixtures	151,765	143,409
Leasehold improvements	39,972	39,972
Software	103,629	103,629
Vehicle	3,500	3,500
	339,101	326,056
Less accumulated depreciation	(234,913)	(178,897)
	$ 104,188	$ 147,159

NOTE E NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions include contributions restricted by the donor for specific purposes or time periods and are comprised of the following:

	2019	2018
Purpose Restricted:		
Technology and training	$ 189,552	$ 230,180
CEO search	16,774	-
Long term employment program	180,484	-
Fund raising support	300,000	-
Third office and management infrastruture	-	30,000
Total Purpose Restricted	686,810	260,180
Time Restricted:		
Future periods	287,167	287,167
Total Time Restricted	287,167	287,167
Total Net Assets With Donor Restrictions	$ 973,977	$ 547,347

NOTE F LEASES

WorkFaith leases office space from a related party (see Note H) and equipment under operating leases that expire through April 2022. WorkFaith receives donated office space and is committed to paying utilities through 2024 on the facilities (see Note G). Net operating lease expense, including in-kind lease expense and related utilities, for the years ended December 31, 2019 and 2018 amounted to $287,214 and $283,766, respectively.

Future minimum payments by year at December 31, 2019 are as follows:

2020	$ 136,228
2021	134,060
2022	63,007
2023	10,505
2024	7,879
	$ 351,679

NOTE G 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 H 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 2019 and 2018 amounted to $14,211 and $46,077, respectively. As of December 31, 2018, WorkFaith had outstanding accounts payable of $395 to MEMCO and none as of December 31, 2019.

WorkFaith leases 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 I 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, 2019 and 2018, WorkFaith contributions to the plan amounted to $31,751 and $34,367, respectively.