

Interfaith Ministries for Greater Houston

Consolidated Financial Statements
and Single Audit Reports
for the year ended June 30, 2017

Interfaith Ministries for Greater Houston

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Independent Auditors' Report

To the Board of Directors of
Interfaith Ministries for Greater Houston:

Report on the Financial Statements

We have audited the accompanying financial statements of Interfaith Ministries for Greater Houston, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016 and the related consolidated statements of activities, of cash flows, and of functional expenses 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 of America; 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.

Auditors' 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits 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 auditors' 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 consolidated financial position of Interfaith Ministries for Greater Houston as of June 30, 2017 and 2016

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.

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 June 30, 2017 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* and in the schedule of expenditures of state awards for the year ended June 30, 2017 as required by the State of Texas *Single Audit Circular* is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements as a whole.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2017 on our consideration of Interfaith Ministries for Greater Houston's 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 Interfaith Ministries for Greater Houston's 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 Interfaith Ministries for Greater Houston's internal control over financial reporting and compliance.

Blazek & Vetterling

October 24, 2017

Interfaith Ministries for Greater Houston

Consolidated Statements of Financial Position as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 4,075,761	\$ 2,754,282
Accounts and government awards receivable	1,218,734	1,520,903
Operating pledges receivable, net (<i>Note 2</i>):		
United Way allocation	429,973	417,072
Other	1,003,689	1,083,657
Prepaid and other assets	175,590	121,231
Food supplies	180,360	283,291
Pledges receivable for capital projects, net (<i>Note 2</i>)	671,175	1,687,873
Cash restricted by notes payable (<i>Note 6</i>)	160,148	197,475
Note receivable (<i>Note 3</i>)	8,368,740	8,368,740
Property and equipment, net (<i>Note 4</i>)	<u>11,311,633</u>	<u>11,532,919</u>
TOTAL ASSETS	<u>\$27,595,803</u>	<u>\$27,967,443</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 454,240	\$ 521,480
Accrued salaries and benefits	294,297	255,019
Other accrued liabilities	121,547	158,168
Deferred revenue	343,430	83,996
Notes payable (<i>Note 5</i>)	1,128,638	1,953,638
New Market Tax Credits notes payable, net (<i>Note 6</i>)	<u>10,431,094</u>	<u>10,402,688</u>
Total liabilities	<u>12,773,246</u>	<u>13,374,989</u>
Net assets:		
Unrestricted	7,742,268	8,278,163
Temporarily restricted (<i>Note 7</i>)	<u>7,080,289</u>	<u>6,314,291</u>
Total net assets	<u>14,822,557</u>	<u>14,592,454</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$27,595,803</u>	<u>\$27,967,443</u>

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

Consolidated Statement of Activities for the year ended June 30, 2017

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Government awards <i>(Note 8)</i>	\$11,900,300		\$11,900,300
Contributions:			
United Way allocation		\$ 857,386	857,386
Other <i>(Note 9)</i>	1,904,219	2,812,368	4,716,587
Special event	544,387	205,015	749,402
Cost of direct donor benefit – special event	(111,478)	(17,864)	(129,342)
Program fees	639,053		639,053
Rental income <i>(Note 10)</i>	128,413		128,413
Interest income on note receivable <i>(Note 3)</i>	83,687		83,687
Other income	<u>46,732</u>		<u>46,732</u>
Total revenue	15,135,313	3,856,905	18,992,218
Net assets released from restrictions:			
Satisfaction of program restrictions	2,971,382	(2,971,382)	
Satisfaction of capital restrictions	<u>119,525</u>	<u>(119,525)</u>	
Total	<u>18,226,220</u>	<u>765,998</u>	<u>18,992,218</u>
EXPENSES:			
Program services:			
Senior services	7,988,653		7,988,653
Refugee services	6,910,078		6,910,078
Interfaith relations	<u>385,767</u>		<u>385,767</u>
Total program services	<u>15,284,498</u>		<u>15,284,498</u>
Supporting services:			
Management and general	1,612,459		1,612,459
Fundraising	1,402,361		1,402,361
Building rental operations	<u>462,797</u>		<u>462,797</u>
Total supporting services	<u>3,477,617</u>		<u>3,477,617</u>
Total expenses	<u>18,762,115</u>		<u>18,762,115</u>
CHANGES IN NET ASSETS	(535,895)	765,998	230,103
Net assets, beginning of year	<u>8,278,163</u>	<u>6,314,291</u>	<u>14,592,454</u>
Net assets, end of year	<u>\$ 7,742,268</u>	<u>\$ 7,080,289</u>	<u>\$14,822,557</u>

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

Consolidated Statement of Activities for the year ended June 30, 2016

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Government awards <i>(Note 8)</i>	\$11,378,167		\$11,378,167
Contributions:			
United Way allocation		\$ 849,803	849,803
Other <i>(Note 9)</i>	1,777,210	3,165,114	4,942,324
Special event	527,867	276,117	803,984
Cost of direct donor benefit – special event	(126,104)	(50,230)	(176,334)
Program fees	496,750		496,750
Rental income <i>(Note 10)</i>	140,301		140,301
Interest income on note receivable <i>(Note 3)</i>	83,687		83,687
Other income	<u>51,363</u>		<u>51,363</u>
Total revenue	14,329,241	4,240,804	18,570,045
Net assets released from restrictions:			
Satisfaction of program restrictions	2,667,642	(2,667,642)	
Satisfaction of capital restrictions	<u>872,853</u>	<u>(872,853)</u>	
Total	<u>17,869,736</u>	<u>700,309</u>	<u>18,570,045</u>
EXPENSES:			
Program services:			
Senior services	7,299,883		7,299,883
Refugee services	6,594,696		6,594,696
Interfaith relations	<u>458,237</u>		<u>458,237</u>
Total program services	<u>14,352,816</u>		<u>14,352,816</u>
Supporting services:			
Management and general	1,476,038		1,476,038
Fundraising	1,459,053		1,459,053
Building rental operations	<u>458,927</u>		<u>458,927</u>
Total supporting services	<u>3,394,018</u>		<u>3,394,018</u>
Total expenses	<u>17,746,834</u>		<u>17,746,834</u>
CHANGES IN NET ASSETS	122,902	700,309	823,211
Net assets, beginning of year	<u>8,155,261</u>	<u>5,613,982</u>	<u>13,769,243</u>
Net assets, end of year	<u>\$ 8,278,163</u>	<u>\$ 6,314,291</u>	<u>\$14,592,454</u>

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

Consolidated Statements of Cash Flows for the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 230,103	\$ 823,211
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for capital projects	(269,009)	(411,530)
Depreciation	432,228	426,988
Amortization of debt issuance costs	28,406	31,244
Provision for uncollectible accounts	142,501	161,145
Changes in operating assets and liabilities:		
Accounts and government awards receivable	288,901	154,955
Operating pledges receivable	71,231	(192,762)
Prepaid and other assets	(54,359)	(5,411)
Food supplies	102,931	7,781
Accounts payable	(67,240)	(149,123)
Accrued salaries and benefits	39,278	(179,674)
Other accrued liabilities	(36,621)	65,760
Deferred revenue	<u>259,434</u>	<u>15,741</u>
Net cash provided by operating activities	<u>1,167,784</u>	<u>748,325</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(210,942)</u>	<u>(661,437)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(825,000)	(696,362)
Proceeds from contributions restricted for capital projects	<u>1,152,310</u>	<u>945,812</u>
Net cash provided by financing activities	<u>327,310</u>	<u>249,450</u>
NET CHANGE IN CASH	1,284,152	336,338
Cash, beginning of year	<u>2,951,757</u>	<u>2,615,419</u>
Cash, end of year	<u>\$ 4,235,909</u>	<u>\$ 2,951,757</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$148,470	\$178,253

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

Consolidated Statement of Functional Expenses for the year ended June 30, 2017

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL EXPENSES
	SENIOR SERVICES	REFUGEE SERVICES	INTERFAITH RELATIONS	TOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	BUILDING RENTAL OPERATIONS	
Salaries	\$ 1,892,261	\$ 1,183,577	\$ 243,124	\$ 3,318,962	\$ 850,433	\$ 491,860	\$ 83,026	\$ 4,744,281
Employee benefits	515,540	314,943	53,451	883,934	175,948	104,471	23,027	1,187,380
Assistance to individuals	470,257	5,009,942		5,480,199				5,480,199
Food supplies	4,001,474			4,001,474				4,001,474
Professional fees and contract services	108,698	137,909	11,688	258,295	312,484	143,519	13,003	727,301
Direct mail and advertising	57,370	5,118	25,969	88,457	9,910	352,493		450,860
Occupancy	140,473	73,082	16,514	230,069	49,554	37,022	117,353	433,998
Depreciation	149,204	63,724	11,962	224,890	34,451	21,602	151,285	432,228
Service delivery and transportation	305,436	45,650		351,086				351,086
Supplies	97,414	14,966	9,515	121,895	9,844	13,245	3,424	148,408
Interest expense	30,281	13,622	3,137	47,040	61,599	5,668	31,629	145,936
Provision for uncollectible accounts	6,018			6,018		129,234	7,249	142,501
Insurance	64,508	16,581	1,863	82,952	14,790	3,443	19,458	120,643
Meetings and travel	24,114	7,145	5,677	36,936	33,040	46,423	64	116,463
Vehicle maintenance and repair	92,258	5,739	7	98,004	18	10	57	98,089
Communications	18,993	12,853	1,546	33,392	6,244	3,224	9,355	52,215
Printing and publications	2,221	2,360	246	4,827	17,681	29,074	326	51,908
Postage and delivery	1,897	635	195	2,727	4,545	13,314		20,586
Other	10,236	2,232	873	13,341	31,918	7,759	3,541	56,559
Total expenses	<u>\$ 7,988,653</u>	<u>\$ 6,910,078</u>	<u>\$ 385,767</u>	<u>\$15,284,498</u>	<u>\$ 1,612,459</u>	<u>\$ 1,402,361</u>	<u>\$ 462,797</u>	18,762,115
Cost of direct donor benefit – special event								<u>129,342</u>
Total								<u>\$18,891,457</u>

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

Consolidated Statement of Functional Expenses for the year ended June 30, 2016

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL EXPENSES
	SENIOR SERVICES	REFUGEE SERVICES	INTERFAITH RELATIONS	TOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	BUILDING RENTAL OPERATIONS	
Salaries	\$ 1,710,652	\$ 1,031,719	\$ 274,294	\$ 3,016,665	\$ 778,030	\$ 435,332	\$ 65,149	\$ 4,295,176
Employee benefits	494,506	294,015	61,062	849,583	175,932	91,941	20,692	1,138,148
Assistance to individuals	289,046	4,929,337	36,187	5,254,570				5,254,570
Food supplies	3,841,894			3,841,894				3,841,894
Professional fees and contract services	121,527	87,300	26,073	234,900	206,686	197,759	10,308	649,653
Direct mail and advertising	21,790	7,098	14,762	43,650	40,637	396,148		480,435
Occupancy	112,200	57,938	7,942	178,080	37,538	24,053	127,281	366,952
Depreciation	152,597	59,314	5,264	217,175	31,913	21,165	156,735	426,988
Service delivery and transportation	293,028	40,500		333,528				333,528
Supplies	44,338	21,477	17,722	83,537	14,093	17,202	5,497	120,329
Interest expense	30,125	12,584	1,378	44,087	92,669	5,606	35,146	177,508
Provision for uncollectible accounts						161,145		161,145
Insurance	56,616	15,894	895	73,405	14,184	3,640	24,813	116,042
Meetings and travel	19,728	7,598	9,497	36,823	35,211	46,238	64	118,336
Vehicle maintenance and repair	80,541	9,945	4	90,490	39	15	94	90,638
Communications	19,040	14,671	1,356	35,067	6,059	2,993	9,250	53,369
Printing and publications	931	1,997	842	3,770	13,318	32,918	108	50,114
Postage and delivery	681	1,355	785	2,821	1,139	12,088		16,048
Other	10,643	1,954	174	12,771	28,590	10,810	3,790	55,961
Total expenses	<u>\$ 7,299,883</u>	<u>\$ 6,594,696</u>	<u>\$ 458,237</u>	<u>\$14,352,816</u>	<u>\$ 1,476,038</u>	<u>\$ 1,459,053</u>	<u>\$ 458,927</u>	17,746,834
Cost of direct donor benefit – special event								<u>176,334</u>
Total								<u>\$17,923,168</u>

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

Notes to Consolidated Financial Statements for the years ended June 30, 2017 and 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Interfaith Ministries for Greater Houston’s (Interfaith Ministries) mission is to bring people of diverse faith traditions together for dialogue, collaboration, and service, as a representation of our shared beliefs. Interfaith Ministries’ goals are to provide direct service, advocacy, and education in the following areas:

- *Senior services* include supportive social services, home-delivered meals, and food assistance to the pet companions of homebound seniors. Meals on Wheels delivers nutritious lunch, breakfast, weekend and emergency shelf-stable meals to thousands of homebound seniors. Client Services provides expanded assessments of client needs and refers clients to supplemental service providers. Animeals on Wheels delivers pet food to seniors with companion animals.
- *Refugee services* assists both newly arrived refugees and established refugees in the Houston community. Interfaith Ministries provides resettlement services, English as a Second Language referrals, job placement services, counseling services, case management, career laddering and cash and rental assistance services.
- *Interfaith relations* fosters understanding, respect and engagement among people of all faith traditions through educational opportunities and community service. The program also includes disaster preparedness services, which works with nonprofits, religious institutions and government agencies to increase the community’s ability to prepare for, respond to and recover from natural disasters.
- *Building rental operations* serves a dual purpose for Interfaith Ministries: to bring in additional rental income to support overall occupancy costs for the organization and to provide a valuable event and convening space to the greater Houston community. Interfaith Ministries offers its meeting spaces to nonprofit, community and governmental organizations at reduced cost or pro bono, to enhance its partnerships with those entities in furtherance of its mission.

In August 2013, IM Support was organized as a Texas nonprofit corporation to secure New Market Tax Credits (NMTC) financing for the construction of the W.T. and Louise J. Moran Building and the renovations of the Albert and Ethel Herzstein Building and to hold ownership of these properties. IM Support’s board of directors is appointed by Interfaith Ministries.

Basis of consolidation – These financial statements include the assets, liabilities, net assets, and activities of Interfaith Ministries and IM Support (collectively Interfaith). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – Interfaith Ministries and IM Support are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code, except for unrelated business income. Interfaith Ministries is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi). IM Support is classified as a Type I supporting organization under §509(a)(3).

Cash – Bank deposits exceed the federally insured limit per depositor per institution.

Allowance for uncollectible accounts – Interfaith provides an allowance for accounts and government awards receivable and pledges receivable when it believes balances may not be collected in full. It is

Interfaith's policy to write off receivables against the allowance when management determines the receivable will not be collected. The amount of expense recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and customer-by-customer analysis of balances. It is possible that management's estimate regarding collectability will change in the near term resulting in a change in the carrying value of accounts and government awards receivable and pledges receivable.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted to estimate the present value of future cash flows.

Food supplies consist primarily of breakfast foods, frozen meals, and pet foods. Donated food supplies are valued at approximate 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. Purchased food is valued at the cost of products purchased as determined by the first-in, first-out method.

Restricted cash represents amounts required to be maintained in a separate bank account by IM Support according to the New Market Tax Credits Financing Commitment for the project's approved expenses.

Note receivable is reported at its outstanding principal balance. The note receivable is considered to be fully collectible, and accordingly, no allowance for doubtful accounts has been provided. In making that determination, management evaluated the financial condition of the borrower, the estimated value of the underlying collateral, and current economic conditions. Interest on the note receivable is recognized over the term of the note receivable and is calculated using the simple-interest method on principal amounts outstanding.

Property and equipment is reported at cost if purchased and at fair value at the date of gift if donated. Additions and improvements with a cost of more than \$5,000 are capitalized. Depreciation is provided on a straight-line basis over estimated useful lives of 20 to 40 years for building, 3 to 10 years for furniture and equipment, and 5 to 7 years for vehicles.

Debt issuance costs represent costs related to the issuance of the NMTC and are amortized over the term of the bonds. Accumulated amortization is \$111,254 and \$82,848 at June 30, 2017 and 2016, respectively. Unamortized debt issuance costs are reported as a direct reduction of the related debt.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* 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.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or future time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Government awards – Financial awards are recognized as revenue when the related services are provided. Awards of food commodities are recognized as revenue at fair market when received and program expense when distributed. Undistributed food commodities are included in food supplies.

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 restricted support. Conditional promises to give are recognized in the same manner when the conditions are

substantially met. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are classified as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Interfaith reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated materials, use of facilities and services – Donated materials and use of facilities are recognized at fair value as unrestricted contributions 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 amounts of time in connection with programs, administration and fundraising for which no amount has been reported in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Program fees are recognized as revenue when the related services are provided. Amounts received in advance are reported as deferred revenue.

Rental income is recognized as revenue ratably over the term of the lease.

Estimates – Management makes 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.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are the first phase of changes aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2017</u>	<u>2016</u>
Pledges receivable	\$ 2,272,809	\$ 3,380,995
Discount to net present value at rates ranging from 1.01% to 1.89%	(11,589)	(36,286)
Allowance for uncollectible pledges	<u>(156,383)</u>	<u>(156,107)</u>
Pledges receivable, net	2,104,837	3,188,602
Less: Pledges receivable for capital projects, net	<u>(671,175)</u>	<u>(1,687,873)</u>
Operating pledges receivable, net	<u>\$ 1,433,662</u>	<u>\$ 1,500,729</u>

Pledges receivable at June 30, 2017 are expected to be collected as follows:

Receivable in less than one year	\$ 1,554,337
Receivable in one to five years	<u>718,472</u>
Total pledges receivable	<u>\$ 2,272,809</u>

NOTE 3 – NOTE RECEIVABLE

Interfaith Ministries entered into an agreement in August 2013 to lend \$8,368,740 to Chase NMTC IM Houston Investment Fund, LLC (Chase NMTC Fund). The note is secured by Chase NMTC Fund's membership interest in Consortium America XXVIII, LLC (CA CDE) and PeopleFund NMTC 2, LLC (PF CDE), (collectively the CDEs) and other cash accounts and property held by a secured party. The interest rate on the note is fixed at 1%. Interest is due annually beginning September 2013 until September 2020. Thereafter, principal and interest payments of \$510,343 are due annually with all unpaid principal and interest due on September 1, 2038, the maturity date. Interest earned was \$83,687 in 2017 and 2016, of which \$69,740 is receivable at June 30, 2017 and 2016.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 3,828,818	\$ 3,828,818
Building	7,822,141	7,799,131
Furniture and equipment	572,386	549,565
Vehicles	842,219	783,111
Construction in progress	<u>35,708</u>	<u> </u>
Total property and equipment, at cost	13,101,272	12,960,625
Accumulated depreciation	<u>(1,789,639)</u>	<u>(1,427,706)</u>
Property and equipment, net	<u>\$11,311,633</u>	<u>\$11,532,919</u>

NOTE 5 – NOTES PAYABLE

In July 2012, Interfaith entered into a loan agreement with a financial institution to borrow up to \$8.6 million to finance the purchase of land and construction of a building. The loan bears interest at a rate of 4.25% at June 30, 2017 and is collateralized by pledges receivable. Interest is payable monthly until the conversion date of July 2, 2018, at which time principal and interest will be due monthly in an amount sufficient to fully amortize the then outstanding balance of the loan over 15 years. The loan is due at maturity in July 2022. Interfaith cannot incur additional indebtedness exceeding \$250,000 other than additional borrowings with the financial institution. Interest expense of \$51,868 and \$83,440 was recognized for the years ended June 30, 2017 and 2016, respectively.

Interfaith has a \$1 million revolving line of credit with a financial institution, which bears interest at prime rate. At June 30, 2017, there was no amount outstanding under the line of credit. The line of credit matures in January 2019 and is secured by accounts at the financial institution.

NOTE 6 – NEW MARKET TAX CREDITS NOTES PAYABLE

IM Support executed a loan agreement in 2013 that provides for borrowings of \$7,350,000 and \$3,822,000 from CA CDE and PF CDE, respectively. The loans financed the construction of the W.T. and Louise J. Moran Building and the renovations of the Albert and Ethel Herzstein Building and are intended to be treated as a “qualified low-income community investment” for purposes of generating New Market Tax Credits under Section 45D of the Internal Revenue Code of 1986, as amended. The loans are secured by a property deed of trust, security agreement, assignment of rents and financing statements, certain bank accounts, and fixture filing on this property and a guaranty by Interfaith.

Pursuant to the issuance of the New Market Tax Credits Financing Commitment, IM Support is required to maintain certain funds at JPMorgan Chase Bank, N.A. (JPMorgan) until such time as they are disbursed for the project’s approved expenses. Amounts totaling \$160,148 and \$197,475 are held at JPMorgan for this purpose at June 30, 2017 and 2016, respectively.

Notes payable consist of the following:

	<u>2017</u>	<u>2016</u>
Total New Market Tax Credits notes payable	\$11,172,000	\$11,172,000
Less: Unamortized debt issuance costs	<u>(740,906)</u>	<u>(769,312)</u>
New Market Tax Credits notes payable, net	<u>\$10,431,094</u>	<u>\$10,402,688</u>

The balances outstanding on the notes payable at June 30, 2017 and repayment terms are as follows:

Note payable to Consortium America XXVIII, LLC.	\$ 5,505,750
Note payable to PeopleFund NMTC 2, LLC.	2,862,990
Note payable to Consortium America XXVIII, LLC.	1,844,250
Note payable to PeopleFund NMTC 2, LLC.	<u>959,010</u>
Total New Market Tax Credits notes payable	<u>\$11,172,000</u>

Interest expense was \$94,068 in 2017 and \$94,068 in 2016, of which \$78,390 was payable at June 30, 2017 and 2016.

Each loan accrues interest at 0.842%. Interest is due annually beginning in September 2013 through September 2020; thereafter, principal and interest installment payments of \$536,328 are due annually beginning in September 2021 with the unpaid balance due in its entirety at the maturity date of September 1, 2043. IM Support is not permitted to prepay any portion of the loans until the seventh anniversary of the loan.

Within 90 days after the seventh anniversary of the note receivable, JPMorgan can exercise its put option to sell its interest in the Chase NMTC Fund to Interfaith Ministries for \$1,000. If JPMorgan does not exercise the put option, Interfaith Ministries can exercise its call option within 90 days after the put option period ends to purchase the interest in the Chase NMTC Fund at fair market value. After exercising its option to purchase the interest in the Chase NMTC Fund, Interfaith Ministries may cancel the New Market Tax Credits notes payable.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Senior services	\$ 6,493,746	\$ 5,873,308
Refugee services	372,005	379,647
Capital acquisitions	162,323	12,839
Interfaith relations	<u>52,215</u>	<u>48,497</u>
Total temporarily restricted net assets	<u>\$ 7,080,289</u>	<u>\$ 6,314,291</u>

NOTE 8 – GOVERNMENT AWARDS

Interfaith Ministries is a party to agreements with government agencies. Should these agreements not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Sources of significant government revenue recognized during the years ended June 30, 2017 and 2016 include the following:

	<u>2017</u>	<u>2016</u>
Federal government awards:		
U. S. Department of Health and Human Services	\$ 7,363,667	\$ 7,485,290
U. S. Department of State	1,326,534	917,018
U. S. Department of Homeland Security	713,673	547,377
U. S. Department of Agriculture	698,953	652,594
U. S. Department of Housing and Urban Development	<u>42,531</u>	<u>40,734</u>
Total federal government awards	<u>10,145,358</u>	<u>9,643,013</u>
State government awards:		
Texas Department of Agriculture	<u>1,689,638</u>	<u>1,735,154</u>
Harris County awards	<u>65,304</u>	<u> </u>
Total government awards	<u>\$11,900,300</u>	<u>\$11,378,167</u>

Government awards require fulfillment of certain conditions as set forth in the agreements 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 Interfaith Ministries with the terms of the agreements. Management believes such disallowances, if any, would not be material to Interfaith Ministries' financial position or changes in net assets.

During 2017, Interfaith Ministries received food commodities from The Houston Food Bank passed through from the U. S. Department of Agriculture (USDA). The value of the food is based on the national per pound price as provided by the most recent Feeding America Product Valuation Survey and the invoiced weight provided by The Houston Food Bank. In 2017, Interfaith Ministries recognized \$698,954 of food commodity awards from USDA based on the receipt of 443,338 pounds of food at \$1.67 per pound, net of processing fees. In 2016, Interfaith Ministries recognized \$652,594 of food commodity awards from USDA based on the receipt of 414,294 pounds of food at \$1.69 per pound, net of processing fees. As of June 30, 2017 and 2016, \$107,295 and \$179,999 were included in food supplies, respectively.

NOTE 9 – NON-CASH CONTRIBUTIONS

Interfaith recognized the following non-cash contributions as a component of other contributions:

	<u>2017</u>	<u>2016</u>
Donated goods:		
Senior services	\$ 663,845	\$ 510,237
Refugee services	305,342	390,595
Interfaith relations	618	3,412
Management and general	21,135	93
Fundraising	5,468	59,395
Donated services:		
Senior services	62,452	7,685
Refugee services	289,475	410,098
Interfaith relations	450	
Management and general	24,250	35,973
Fundraising	<u>32,458</u>	<u>63,550</u>
Total non-cash contributions	<u>\$ 1,405,493</u>	<u>\$ 1,481,038</u>

NOTE 10 – RENTAL INCOME

Interfaith Ministries leases office space to tenants under noncancelable operating leases. The lease terms are primarily for three years. Future rental income on noncancelable operating leases related to this rental property is as follows:

2018	\$ 103,269
2019	<u>19,573</u>
Total	<u>\$ 122,842</u>

Rental income of \$128,413 and \$140,301 was recognized in the financial statements related to the lease agreements for the years ended June 30, 2017 and 2016, respectively.

NOTE 11 – EMPLOYEE BENEFIT PLAN

Interfaith Ministries offers a Safe Harbor §403(b) Thrift Plan (the Plan) that covers all employees. Employees may contribute amounts to the Plan up to the limits established by the Internal Revenue Code. Interfaith Ministries matches 100% of each employee's voluntary contributions but not to exceed 3% of the eligible compensation, and 50% of contributions exceeding 3% of eligible compensation, but not to exceed 5% of the employee's eligible compensation. Interfaith Ministries contributed approximately \$114,000 and \$122,000 to the Plan during the years ended June 30, 2017 and 2016, respectively.

NOTE 12 – CONCENTRATIONS

As of June 30, 2017, approximately 48% of other pledges receivable were due from three contributors. As of June 30, 2016, approximately 53% of other pledges receivable were due from four contributors.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 24, 2017, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Interfaith Ministries for Greater Houston

Schedule of Expenditures of Federal Awards for the year ended June 30, 2017

<u>FEDERAL GRANTOR</u>					
<u>Pass-through Grantor</u>	<u>CFDA</u>		<u>Award</u>	<u>Allowable</u>	<u>Subrecipient</u>
<u>Program Title & Period</u>	<u>Number</u>	<u>Contract Number</u>	<u>Amount</u>	<u>Federal</u>	<u>Awards</u>
				<u>Expenditures</u>	
U. S. DEPARTMENT OF AGRICULTURE					
Passed through The Houston Food Bank:					
Emergency Food Assistance Program (Food Commodities) (Note 2)					
#1	04/16 – 03/17	10.569	30375	\$ 599,437	
#2	04/17 – 03/18	10.569	30375	<u>172,221</u>	
Total U. S. Department of Agriculture				<u>771,658</u>	
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Passed through Harris County:					
Community Development Block Grants/Entitlement Grants					
#3	03/16 – 02/17	14.218	2016-0017	\$43,428	29,594
#4	03/17 – 02/18	14.218	2017-0016	\$43,428	<u>12,937</u>
Total U. S. Department of Housing and Urban Development				<u>42,531</u>	
U. S. DEPARTMENT OF STATE					
Passed through Church World Services:					
U. S. Refugee Admissions Program					
#5	10/15 – 09/16	19.510	S-PRMCO-16-CA-1007	\$671,030	340,738
#6	10/16 – 09/17	19.510	S-PRMCO-17-CA-1012	\$383,144	294,831
Passed through Episcopal Migration Ministries:					
U. S. Refugee Admissions Program					
#7	10/15 – 09/16	19.510	S-PRMCO-16-CA-1008	\$631,800	367,574
#8	10/16 – 09/17	19.510	S-PRMCO-17-CA-1009	\$489,700	<u>323,391</u>
Total U. S. Department of State				<u>1,326,534</u>	
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Passed through City of Houston:					
Special Programs for the Aging Title III, Part C – Nutrition Services					
#9	10/15 – 09/16	93.045	46-0000-9452	\$2,559,635	487,670
#10	10/16 – 09/17	93.045	46-0001-3880	\$2,559,635	<u>1,919,952</u>
				<u>2,407,622</u>	

(continued)

Interfaith Ministries for Greater Houston

Schedule of Expenditures of Federal Awards for the year ended June 30, 2017

(continued)

<u>FEDERAL GRANTOR</u>						
<u>Pass-through Grantor</u>	CFDA			Award	Allowable	Subrecipient
<u>Program Title & Period</u>	<u>Number</u>	<u>Contract Number</u>		<u>Amount</u>	<u>Federal Expenditures</u>	<u>Awards</u>

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)

Passed through Texas Health and Human Services Commission:

Refugee and Entrant Assistance – State/Replacement Designee Administered Programs						
#11	10/15 – 09/16	93.566	529-14-0096-00004C	\$534,115	159,970	
#12	10/16 – 01/17	93.566	529-14-0096-00004D	\$645,261	138,901	
#13	10/15 – 09/16	93.566	529-13-0021-00011C	\$3,390,170	890,252	
#14	10/16 – 01/17	93.566	529-17-0009-00015	\$1,554,460	1,143,331	

Passed through Young Men’s Christian Association of the Greater Houston Area:

Refugee and Entrant Assistance – State/Replacement Designee Administered Programs						
#15	10/15 – 09/16	93.566	529-14-0009-00036B	\$100,986	35,368	
#16	10/16 – 09/17	93.566	529-14-0009-00036C	\$311,107	69,890	
#17	02/17 – 09/17	93.566	17ADTXRSOC	\$931,817	457,551	
#18	02/17 – 09/17	93.566	1705TXRCMA	\$1,146,223	965,675	
					<u>3,860,938</u>	

Passed through Church World Services:

Refugee and Entrant Assistance – Voluntary Agency Programs						
#19	10/15 – 03/17	93.567	90RV0052	\$280,000	91,102	
#20	10/16 – 03/18	93.567	90RV0069-03-00	\$254,000	119,239	

Passed through Episcopal Migration Ministries:

Refugee and Entrant Assistance – Voluntary Agency Programs						
#21	10/15 – 03/17	93.567	90RV0065-02-01	\$167,875	88,782	
#22	10/16 – 03/18	93.567	90RV0065-02-01	\$167,875	87,621	
					<u>386,744</u>	

Passed through Episcopal Migration Ministries:

Refugee and Entrant Assistance – Discretionary Grants						
#23	10/15 – 09/16	93.576	90RP0105	\$54,500	10,874	
#24	10/16 – 09/17	93.576	90RP0115	\$53,200	39,278	
					<u>50,152</u>	

(continued)

Interfaith Ministries for Greater Houston

Schedule of Expenditures of Federal Awards for the year ended June 30, 2017

(continued)

<u>FEDERAL GRANTOR</u>					<u>Allowable</u>	
<u>Pass-through Grantor</u>	<u>CFDA</u>		<u>Award</u>	<u>Federal</u>	<u>Subrecipient</u>	
<u>Program Title & Period</u>	<u>Number</u>	<u>Contract Number</u>	<u>Amount</u>	<u>Expenditures</u>	<u>Awards</u>	
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)						
Passed through The Alliance for Multicultural Community Services:						
Refugee and Entrant Assistance – Targeted Assistance Grants						
#25	10/15 – 09/16	93.584	529-14-0009-00012B	\$203,876	56,216	
#26	10/16 – 09/17	93.584	529-14-0009-00012C	\$316,558	<u>71,098</u>	
					<u>127,314</u>	
Passed through Texas health and Human Services Commission:						
Refugee and Entrant Assistance – Targeted Assistance Grants						
#27	10/16 – 01/17	93.584	529-14-0096-00004D	\$124,938	<u>12,351</u>	
Passed through Texas Department of Aging and Disability Services:						
Social Services Block Grant						
#28	10/15 – 09/16	93.667	001016489-06-09	\$288,738	60,249	
#29	10/16 – 09/17	93.667	001016489-06-12	\$364,577	<u>263,222</u>	
					<u>323,471</u>	
					<u>9,596</u>	
Total U. S. Department of Health and Human Services					<u>7,168,592</u>	<u>9,596</u>
U. S. DEPARTMENT OF HOMELAND SECURITY						
Passed through Church World Services:						
Cuban and Haitian Entrant Program						
#30	01/16 – 12/16	97.009	2014-CI-009-000002	\$530,483	238,755	
#31	01/17 – 12/17	97.009	2014-CI-009-000002-03	\$434,585	<u>290,865</u>	
					<u>529,620</u>	
Passed through United Way of the Texas Gulf Coast:						
Emergency Food and Shelter National Board Program						
#32	12/15 – 08/17	97.024	33-7828-00-012	\$140,000	<u>140,000</u>	
Total U. S. Department of Homeland Security					<u>669,620</u>	
TOTAL FEDERAL AWARDS					<u>\$ 9,978,935</u>	<u>\$ 9,596</u>

See accompanying notes to schedules of expenditures of federal and state awards.

Interfaith Ministries for Greater Houston

Schedule of Expenditures of State Awards for the year ended June 30, 2017

<u>STATE GRANTOR</u> <u>Pass-through Grantor</u> <u>Program Title & Period</u>	<u>Award</u> <u>Amount</u>	<u>Allowable</u> <u>State</u> <u>Expenditures</u>
TEXAS DEPARTMENT OF AGRICULTURE		
Home-Delivered Meal Grant Program		
#S1 02/16 – 01/17	\$1,474,798	\$ 506,867
#S2 02/17 – 01/18	\$1,516,634	<u>1,182,771</u>
TOTAL STATE AWARDS		<u>\$ 1,689,638</u>

See accompanying notes to schedules of expenditures of federal and state awards.

Interfaith Ministries for Greater Houston

Notes to Schedules of Expenditures of Federal and State Awards for the year ended June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICY

Basis of presentation – The schedules of expenditures of federal and state awards (the schedules) are prepared on the accrual basis of accounting. The information in these schedules 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) and the State of Texas *Single Audit Circular*. Federal and state expenditures include allowable costs funded by federal and state grants. Allowable costs are subject to the cost principles of the Uniform Guidance and the State of Texas *Uniform Grant Management Standards*, and include both costs that are capitalized and costs that are recognized as expenses in Interfaith Ministries' financial statements in conformity with generally accepted accounting principles. Indirect costs are reported utilizing Interfaith Ministries' approved indirect cost rates, therefore, Interfaith Ministries does not use the 10% de minimis rate.

Because the schedules present only a selected portion of the operations of Interfaith Ministries, they are not intended to and do not present the financial position, changes in net assets, or cash flows of Interfaith Ministries.

NOTE 2 – FOOD COMMODITIES

Food commodities are recognized as federal expenditures when distributed. Distributed food is reported in the schedule of expenditures of federal awards under the Emergency Food Assistance Program 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 (\$1.67 in 2017). At June 30, 2017, \$107,295 was included in food supplies 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
Interfaith Ministries for Greater Houston:

We have audited, in accordance with the 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 Interfaith Ministries for Greater Houston (Interfaith Ministries), which comprise the consolidated statement of financial position as of June 30, 2017 and the related consolidated statements of activities, of cash flows, and of functional expenses for the year then ended, and the related notes to the financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Interfaith Ministries' internal control over financial reporting (internal control) to determine the 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 Interfaith Ministries' internal control. Accordingly, we do not express an opinion on the effectiveness of Interfaith Ministries' 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Interfaith Ministries' 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 determination of financial statement amounts. 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 Interfaith Ministries' 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

October 24, 2017

Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance and the State of Texas *Single Audit Circular*

To the Board of Directors of
Interfaith Ministries for Greater Houston:

Report on Compliance for Each Major Federal and Major State Program

We have audited Interfaith Ministries for Greater Houston's (Interfaith Ministries) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and in the State of Texas *Single Audit Circular* that could have a direct and material effect on each of Interfaith Ministries' major federal and major state programs for the year ended June 30, 2017. Interfaith Ministries' major federal and major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Interfaith Ministries' major federal and major state programs based on our audit of the types of compliance requirements referred to above. 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, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and in the State of Texas *Single Audit Circular*. Those standards and the Uniform Guidance and the State of Texas *Single Audit Circular* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or a major state program occurred. An audit includes examining, on a test basis, evidence about Interfaith Ministries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and major state program. However, our audit does not provide a legal determination of Interfaith Ministries' compliance.

Opinion on Each Major Federal and Major State Program

In our opinion, Interfaith Ministries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and major state programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Interfaith Ministries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Interfaith Ministries' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State of Texas *Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Interfaith Ministries' 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 or state 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 or state 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 or state 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 and the State of Texas *Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.

Blazek & Vetterling

October 24, 2017

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 and State Award Findings and Questioned Costs

There were no findings for federal awards required to be reported in accordance with 2 CFR § 200.516(a), and no findings for state awards required to be reported in accordance with §505(d) of the State of Texas *Single Audit Circular*.