

**Christian Community Service Center, Inc.
and
Christian Community Service Center
Memorial Endowment**

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2018 and 2017

Christian Community Service Center, Inc. and Christian Community Service Center Memorial Endowment

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Independent Auditors' Report

To the Board of Directors of
Christian Community Service Center, Inc. and
Christian Community Service Center Memorial Endowment:

We have audited the accompanying financial statements of Christian Community Service Center, Inc. (the Center) and Christian Community Service Center Memorial Endowment (the Endowment), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017 and the related consolidated statements of activities, of functional expenses, and of 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 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. 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 the Center and the Endowment as of December 31, 2018 and 2017 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, the Center and the Endowment adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended December 31, 2017, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

Blazek & Vetterling

June 4, 2019

**Christian Community Service Center, Inc. and
Christian Community Service Center Memorial Endowment**

Consolidated Statements of Financial Position as of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents (<i>Notes 4 and 6</i>)	\$ 870,100	\$ 1,167,764
Inventory	60,402	64,989
Prepaid expenses and other assets	13,429	13,429
Contributions receivable (<i>Note 5</i>)	387,017	175,338
Cash restricted for capital improvements (<i>Notes 4 and 6</i>)	4,960,178	1,710,168
Contributions receivable for capital improvements, net (<i>Note 5</i>)	2,690,328	2,063,712
Investments (<i>Note 6</i>)	2,578,803	2,825,410
Property, net (<i>Note 7</i>)	<u>1,834,290</u>	<u>1,811,021</u>
TOTAL ASSETS	<u>\$13,394,547</u>	<u>\$ 9,831,831</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 52,438	\$ 104,360
Construction payable	<u>8,066</u>	<u> </u>
Total liabilities	<u>60,504</u>	<u>104,360</u>
Commitments (<i>Notes 11 and 14</i>)		
Net assets (<i>Note 10</i>):		
Without donor restrictions (<i>Note 8</i>)	4,194,165	4,507,604
With donor restrictions (<i>Note 9</i>)	<u>9,139,878</u>	<u>5,219,867</u>
Total net assets	<u>13,334,043</u>	<u>9,727,471</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$13,394,547</u>	<u>\$ 9,831,831</u>

See accompanying notes to consolidated financial statements.

**Christian Community Service Center, Inc. and
Christian Community Service Center Memorial Endowment**

Consolidated Statement of Activities for the year ended December 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contributions	\$ 672,793	\$ 4,954,465	\$ 5,627,258
In-kind contributions (<i>Note 12</i>)	761,327		761,327
Special event	212,463	11,510	223,973
Direct donor benefit costs	(34,541)		(34,541)
Sunshine Resale Shop sales	327,901		327,901
Operating investment return	106,379	24,822	131,201
Other income	<u>3,107</u>		<u>3,107</u>
Total operating revenue	2,049,429	4,990,797	7,040,226
Net assets released from restrictions:			
Program expenditures	904,672	(904,672)	
Capital campaign expenditures	<u>111,000</u>	<u>(111,000)</u>	
Total	<u>3,065,101</u>	<u>3,975,125</u>	<u>7,040,226</u>
OPERATING EXPENSES:			
Program services:			
Emergency Services	1,586,066		1,586,066
Sunshine Resale Shop	315,252		315,252
Back To School	307,137		307,137
JobNet	170,526		170,526
Martha's Way	167,168		167,168
Louise J. Moran Vision Care	71,924		71,924
Jingle Bell Express	<u>59,510</u>		<u>59,510</u>
Total program services	2,677,583		2,677,583
Supporting services:			
Management and general	193,648		193,648
Fundraising	<u>294,336</u>		<u>294,336</u>
Total operating expenses	<u>3,165,567</u>		<u>3,165,567</u>
CHANGES IN NET ASSETS FROM OPERATIONS	(100,466)	3,975,125	3,874,659
OTHER CHANGES IN NET ASSETS:			
Contributions to Endowment (<i>Note 10</i>)		9,210	9,210
Endowment investment return	<u>(212,973)</u>	<u>(64,324)</u>	<u>(277,297)</u>
CHANGES IN NET ASSETS	(313,439)	3,920,011	3,606,572
Net assets, beginning of year	<u>4,507,604</u>	<u>5,219,867</u>	<u>9,727,471</u>
Net assets, end of year	<u>\$ 4,194,165</u>	<u>\$ 9,139,878</u>	<u>\$13,334,043</u>

See accompanying notes to consolidated financial statements.

**Christian Community Service Center, Inc. and
Christian Community Service Center Memorial Endowment**

Consolidated Statement of Activities for the year ended December 31, 2017

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contributions	\$ 657,655	\$ 4,756,739	\$ 5,414,394
In-kind contributions (<i>Note 12</i>)	984,075		984,075
Special event	192,677	11,807	204,484
Direct donor benefit costs	(31,758)		(31,758)
Sunshine Resale Shop sales	326,986		326,986
Operating investment return	99,058	23,938	122,996
Other income	<u>65,157</u>		<u>65,157</u>
Total operating revenue	2,293,850	4,792,484	7,086,334
Net assets released from restrictions:			
Program expenditures	960,352	(960,352)	
Capital campaign expenditures	<u>174,000</u>	<u>(174,000)</u>	
Total	<u>3,428,202</u>	<u>3,658,132</u>	<u>7,086,334</u>
OPERATING EXPENSES:			
Program services:			
Emergency Services	1,814,131		1,814,131
Sunshine Resale Shop	317,207		317,207
Back To School	299,247		299,247
JobNet	170,951		170,951
Martha's Way	175,867		175,867
Louise J. Moran Vision Care	79,007		79,007
Jingle Bell Express	<u>62,186</u>		<u>62,186</u>
Total program services	2,918,596		2,918,596
Supporting services:			
Management and general	176,682		176,682
Fundraising	<u>350,182</u>		<u>350,182</u>
Total operating expenses	<u>3,445,460</u>		<u>3,445,460</u>
CHANGES IN NET ASSETS FROM OPERATIONS	(17,258)	3,658,132	3,640,874
OTHER CHANGES IN NET ASSETS:			
Contributions to Endowment (<i>Note 10</i>)	12,500	20,402	32,902
Endowment investment return	<u>315,941</u>	<u>89,821</u>	<u>405,762</u>
CHANGES IN NET ASSETS	311,183	3,768,355	4,079,538
Net assets, beginning of year (<i>Note 2</i>)	<u>4,196,421</u>	<u>1,451,512</u>	<u>5,647,933</u>
Net assets, end of year	<u>\$ 4,507,604</u>	<u>\$ 5,219,867</u>	<u>\$ 9,727,471</u>

See accompanying notes to consolidated financial statements.

**Christian Community Service Center, Inc. and
Christian Community Service Center Memorial Endowment**

Consolidated Statement of Functional Expenses for the year ended December 31, 2018

<u>OPERATING EXPENSES</u>	<u>EMERGENCY SERVICES</u>	<u>SUNSHINE RESALE SHOP</u>	<u>BACK TO SCHOOL</u>	<u>JOBNET</u>	<u>MARTHA'S WAY</u>	<u>LOUISE J. MORAN VISION CARE</u>	<u>JINGLE BELL EXPRESS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Direct assistance	\$1,139,072		\$ 267,983		\$ 6,664	\$ 40,220	\$ 21,701			\$1,475,640
Salaries and related costs	277,247	\$ 118,186	25,253	\$ 131,032	119,990	25,253	25,253	\$ 142,434	\$ 146,022	1,010,670
Professional and contract services	49,233	4,708	1,640		23,266		1,600	18,708	113,045	212,200
Occupancy	8,220	155,342	189	5,931	661	189	189	2,685		173,406
Supplies	26,248	3,695	5,642	7,807	4,422	553	4,947	5,113	5,602	64,029
Depreciation	35,121	2,832	768	3,740	2,316	768	768	1,460	120	47,893
Insurance	13,771	12,886	1,455	5,762	1,977	1,455	1,455	5,813	1,474	46,048
Repairs and maintenance	21,664	1,903	968	8,670	1,920	968	968	3,149	527	40,737
Printing and postage	2,951	1,366	1,090	1,256	1,644	1,050	1,066	1,218	25,244	36,885
Fees and licenses	3,621	7,371	1,092	2,352	784	643	643	10,956	1,613	29,075
Telephone	5,756	2,724	634	3,704	572	330	623	968	101	15,412
Transportation	1,880	597	176	47	2,051	415	18	20	164	5,368
Other	<u>1,282</u>	<u>3,642</u>	<u>247</u>	<u>225</u>	<u>901</u>	<u>80</u>	<u>279</u>	<u>1,124</u>	<u>424</u>	<u>8,204</u>
Total operating expenses	<u>\$1,586,066</u>	<u>\$ 315,252</u>	<u>\$ 307,137</u>	<u>\$ 170,526</u>	<u>\$ 167,168</u>	<u>\$ 71,924</u>	<u>\$ 59,510</u>	<u>\$ 193,648</u>	<u>\$ 294,336</u>	3,165,567
Direct donor benefit costs										<u>34,541</u>
Total										<u>\$3,200,108</u>

Note:

Program services as a percent of total operating expenses	85%
Management and general as a percent of total operating expenses	6%
Fundraising as a percent of total operating expenses	9%

See accompanying notes to consolidated financial statements.

**Christian Community Service Center, Inc. and
Christian Community Service Center Memorial Endowment**

Consolidated Statement of Functional Expenses for the year ended December 31, 2017

OPERATING EXPENSES	EMERGENCY SERVICES	SUNSHINE RESALE SHOP	BACK TO SCHOOL	JOBNET	MARTHA'S WAY	LOUISE J. MORAN VISION CARE	JINGLE BELL EXPRESS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Direct assistance	\$1,383,418		\$ 262,948		\$ 13,370	\$ 48,313	\$ 25,267			\$1,733,316
Salaries and related costs	253,744	\$ 115,206	24,252	\$ 129,726	120,645	24,252	24,252	\$ 128,155	\$ 141,320	961,552
Professional and contract services	53,169	8,220	1,706		25,304		1,987	18,120	178,682	287,188
Occupancy	7,244	157,214	167	4,559	583	167	167	2,181		172,282
Supplies	27,127	2,648	4,731	7,532	4,986	1,015	4,791	2,224	4,653	59,707
Depreciation	35,120	2,832	768	3,740	2,316	772	768	1,460	120	47,896
Insurance	12,229	10,969	1,243	5,311	1,837	1,243	1,243	3,797	1,295	39,167
Repairs and maintenance	26,421	3,724	736	13,122	1,557	736	1,163	5,193	366	53,018
Printing and postage	3,646	1,665	1,399	1,372	2,207	1,364	1,388	1,616	22,301	36,958
Fees and licenses	3,199	6,810	391	1,730	600	376	391	11,164	770	25,431
Telephone	5,616	3,366	369	3,562	351	308	369	1,409	98	15,448
Transportation	2,731	842	129	120	2,020	355	41	56	30	6,324
Other	467	3,711	408	177	91	106	359	1,307	547	7,173
Total operating expenses	<u>\$1,814,131</u>	<u>\$ 317,207</u>	<u>\$ 299,247</u>	<u>\$ 170,951</u>	<u>\$ 175,867</u>	<u>\$ 79,007</u>	<u>\$ 62,186</u>	<u>\$ 176,682</u>	<u>\$ 350,182</u>	3,445,460
Direct donor benefit costs										<u>31,758</u>
Total										<u>\$3,477,218</u>

Note:

Program services as a percent of total operating expenses	85%
Management and general as a percent of total operating expenses	5%
Fundraising as a percent of total operating expenses	10%

See accompanying notes to consolidated financial statements.

**Christian Community Service Center, Inc. and
Christian Community Service Center Memorial Endowment**

Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 3,606,572	\$ 4,079,538
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	47,893	47,896
Net realized and unrealized (gain) loss on investments	212,034	(510,148)
Contributions for capital improvements	(3,982,323)	(3,766,594)
Contributions restricted for endowment	(9,210)	(32,902)
Changes in operating assets and liabilities:		
Inventory	4,587	(6,370)
Contributions receivable	(211,679)	(54,500)
Accounts payable and accrued expenses	<u>(51,922)</u>	<u>(57,738)</u>
Net cash used by operating activities	<u>(384,048)</u>	<u>(300,818)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,129,296)	(45,832)
Proceeds from sales of investments	1,298,788	72,253
Net change in money market mutual funds	(134,919)	(13,950)
Purchases of property	<u>(63,096)</u>	<u>(283,443)</u>
Net cash used by investing activities	<u>(28,523)</u>	<u>(270,972)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions for capital improvements	3,355,707	2,189,743
Proceeds from contributions restricted for endowment	<u>9,210</u>	<u>32,902</u>
Net cash provided by financing activities	<u>3,364,917</u>	<u>2,222,645</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,952,346	1,650,855
Cash and cash equivalents, beginning of year	<u>2,877,932</u>	<u>1,227,077</u>
Cash and cash equivalents, end of year	<u>\$ 5,830,278</u>	<u>\$ 2,877,932</u>

Reconciliation of cash and cash equivalents as reported in the statements of financial position:

Cash and cash equivalents	\$ 870,100	\$ 1,167,764
Cash restricted for capital improvements	<u>4,960,178</u>	<u>1,710,168</u>
Total cash and cash equivalents	<u>\$ 5,830,278</u>	<u>\$ 2,877,932</u>

See accompanying notes to consolidated financial statements.

Christian Community Service Center, Inc. and Christian Community Service Center Memorial Endowment

Notes to Consolidated Financial Statements for the years ended December 31, 2018 and 2017

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Christian Community Service Center, Inc. (the Center) is an ecumenical, nonprofit corporation organized by member churches in the Houston area to provide food and services to people in need in the midtown and southwest Houston community. The Center provides services to the community through the following programs:

- *Emergency Services* – operates two locations in Central and Southwest Houston. The program addresses the community’s basic needs by providing food, clothing, financial assistance and referrals to persons in crisis. This effort includes helping families avoid homelessness or substandard living conditions, providing medical assistance for eyeglasses, dental services and prescription medication, and distributing gently-used clothing.
- *Sunshine Resale Shop* sells donated used clothing, furniture and household items at a substantially reduced price to families in need served by the Center and others in the community.
- *Back To School* provides students (Pre-K to 8th grade) with comprehensive school supplies, new school attire, and gently used shoes and clothing to prepare them to achieve academic success. This year’s effort continued with strategic partnerships involving a variety of schools, making a concentrated impact on campuses in underserved areas.
- *JobNet* helps job-seekers through skill-building workshops, computer training, job leads, resume development, business attire and access to office equipment. The program’s individualized design increases clients’ skills and confidence, especially those who face employment barriers including limited education, lack of computer skills and transportation challenges.
- *Martha’s Way* is a 42-hour residential housekeeping training program designed to teach women to become entrepreneurs in the field of housekeeping. Job leads are shared with graduates, helping them to launch their businesses.
- *Louise J. Moran Vision Care* partners with local schools and the University of Houston School of Optometry to provide vision-screening services and prescription eyeglasses to students in need in grades Pre-K to 8.
- *Jingle Bell Express* provides children from low-income families with new toys and books for their Christmas celebrations. Each of the families also receive a food package for this special time of year. This uniquely designed program addresses several client needs including literacy and hunger.

Christian Community Service Center Memorial Endowment (the Endowment) was created in 1998 to provide financial support for the programs of the Center. The majority of the Endowment’s Board of Directors are appointed by the Board of Directors of the Center.

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

Federal income tax status – The Center and the Endowment are exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code. The Center is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi). The Endowment is classified as a Type I supporting organization under §509(a)(3).

Cash equivalents include highly liquid financial instruments with original maturities of three months or less.

Inventory is reported at the lower of cost or net realizable value. For contributed resale shop merchandise, cost is based on estimated fair value at the time of the contribution.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts due in more than one year are discounted, if material, to estimate the present value of future cash flows. An allowance for uncollectible contributions receivable is provided when it is believed balances may not be collectible in full. Contributions receivable are written off against this allowance when management determines a receivable will not be collected.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property is reported at cost if purchased or at fair value at the date of gift if donated. CCSC capitalizes property in excess of \$5,000. Depreciation is provided using the straight-line method over estimated useful lives of 3 to 40 years.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Operating revenue and expenses – CCSC reports activities related to its Endowment, including bequest contributions that are transferred to the Endowment from the Center, as non-operating revenue and expenses. Endowment investment return approved by the Endowment Board of Directors for Center operations is reported as operating revenue. Revenue and expenses, except those related to the Endowment, are reported as operating.

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.

Donated materials, use of facilities and services are recognized at fair value as 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.

Special event revenue is recognized when the event occurs. Amounts received in advance are reported as deferred revenue until earned. Direct donor benefit costs represent the expenses recognized for food, beverages, facility rental, entertainment and items purchased for auction.

Resale Shop sales are recognized at the time of sale.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to one or more program or supporting activities are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and occupancy costs are allocated based on square footage.

Estimates – Management must make 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.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

Recent financial accounting pronouncement – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2019. The Center plans to adopt this ASU for its fiscal year ending December 31, 2020. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS

CCSC adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. The ASU has been applied on a retrospective basis to the financial statements for the year ended December 31, 2017, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2018 presentation but had no impact on total net assets or total changes in net assets for 2017.

In 2018, CCSC also adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires the statement of cash flows to explain the change in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Prior to adoption, restricted cash and cash equivalents were excluded from beginning and ending cash and cash equivalents in the statement of cash flows. The statement of cash flows for the year ended December 31, 2017 was restated to reflect the retrospective adoption. This change had no impact on net assets or changes in net assets.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 comprise of the following:

Financial assets at December 31, 2018:	
Cash and cash equivalents	\$ 5,830,278
Contributions receivable	3,077,345
Investments	<u>2,578,803</u>
Total financial assets	11,486,426
Less:	
Cash restricted for long-term purposes	(4,960,178)
Contributions receivable restricted for long-term purposes	(2,690,328)
Endowment investments	(2,578,803)
Other donor-restricted assets subject to satisfaction of restriction	(187,500)
Other board-designated funds	(107,166)
Add:	
Endowment appropriation approved for upcoming year	<u>129,239</u>
Total financial assets available for general expenditure	<u>\$ 1,091,690</u>

CCSC is supported by various donations from its 42 member churches, individuals, foundations, and corporations. As part of CCSC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. CCSC has an endowment, of which \$2.5 million is board-designated and may be drawn upon in the event of unanticipated financial circumstances or an immediate liquidity need resulting from events outside the typical business cycle of converting financials assets to cash or settling financial liabilities.

CCSC considers all expenditures related to its ongoing activities of Emergency Services, Sunshine Resale Shop, Back To School, JobNet, Martha's Way, Vision Care, and Jingle Bell Express as well as services undertaken to support these activities to be general expenditures.

NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2018</u>	<u>2017</u>
Bank deposits	\$ 1,631,637	\$ 2,800,071
TPF Money Market Mutual Fund	<u>4,198,641</u>	<u>77,861</u>
Total cash and cash equivalents	<u>\$ 5,830,278</u>	<u>\$ 2,877,932</u>

Bank deposits exceed the federally insured limit per depositor per institution. The Center places its cash with high credit quality financial institutions and evaluates the credit quality of the financial institutions on a periodic basis.

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Capital contributions receivable	\$ 2,756,027	\$ 2,123,976
Operating contributions receivable	<u>387,017</u>	<u>175,338</u>
Total contributions receivable	3,143,044	2,299,314
Discount to net present value at 1.47% to 1.98%	(40,148)	(21,985)
Allowance for uncollectible contributions	<u>(25,551)</u>	<u>(38,279)</u>
Contributions receivable, net	<u>\$ 3,077,345</u>	<u>\$ 2,239,050</u>

Contributions receivable at December 31, 2018 are expected to be collected as follows:

2019	\$ 1,281,447
2020	814,938
2021	665,159
2022	266,500
2023	<u>115,000</u>
Total contributions receivable	<u>\$ 3,143,044</u>

Contributions receivable from two donors totaled approximately \$1,370,000 or 44% and \$737,000 or 32% at December 31, 2018 and 2017, respectively. Contributions from one donor totaled approximately \$1,000,000 or 18% during 2018.

NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2018 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Pooled investment funds:				
TPF Large-Cap Equity Fund (a)		\$ 1,055,326		\$ 1,055,326
TPF International Equity Fund (b)		559,117		559,117
TPF Defensive Strategies Pooled Fund (c)		325,101		325,101
TPF Small-Cap Equity Fund (d)		238,369		238,369
TPF Money Market Mutual Fund (e)		195,537		195,537
TPF Emerging Markets Equity Fund (f)		189,697		189,697
TPF Fixed-Income Fund (g)		<u>15,656</u>		<u>15,656</u>
Total investments measured at fair value		2,578,803		2,578,803
Cash equivalent:				
TPF Money Market Mutual Fund		<u>4,198,641</u>		<u>4,198,641</u>
Total assets measured at fair value	<u>\$ 0</u>	<u>\$ 6,777,444</u>	<u>\$ 0</u>	<u>\$ 6,777,444</u>

Assets measured at fair value at December 31, 2017 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Pooled investment funds:				
TPF Large-Cap Equity Fund (a)		\$ 1,154,414		\$ 1,154,414
TPF International Equity Fund (b)		710,936		710,936
TPF Defensive Strategies Pooled Fund (c)		332,194		332,194
TPF Small-Cap Equity Fund (d)		300,691		300,691
TPF Money Market Mutual Fund (e)		60,618		60,618
TPF Emerging Markets Equity Fund (f)		250,526		250,526
TPF Fixed-Income Fund (g)		<u>16,031</u>		<u>16,031</u>
Total investments measured at fair value		2,825,410		2,825,410
Cash equivalent:				
TPF Money Market Mutual Fund		<u>77,861</u>		<u>77,861</u>
Total assets measured at fair value	<u>\$ 0</u>	<u>\$ 2,903,271</u>	<u>\$ 0</u>	<u>\$ 2,903,271</u>

The pooled investment funds are not traded on a public exchange and are primarily invested in domestic and international equity and debt securities traded in public markets. The pooled investment funds are described as follows:

- (a) This fund is a broadly diversified portfolio of mostly U. S. and some international stocks that seek to provide opportunities for long-term capital growth, while avoiding speculation and undue risk. Withdrawals may be made on the last business day of the month by written request with one-day notice.
- (b) This fund is a broadly diversified portfolio of large, high quality non-U. S. companies that are either ordinary shares traded on securities exchanges around the world or American Depository Receipts traded on U. S. exchanges. Withdrawals may be made on the last business day of the month by written request with one-day notice.

- (c) This fund is a broadly diversified portfolio of primarily institutional-class mutual funds employing a variety of alternative investment strategies, including merger arbitrage, put and call options and long/short equity. Withdrawals may be made on the last business day of the month by written request with one-day notice.
- (d) This fund is a blended-style portfolio of small U. S. companies allocated among managers with distinct growth, value and core strategies. Withdrawals may be made on the last business day of the month by written request with one-day notice.
- (e) This fund is designed to achieve a competitive rate of current income with maximum safety and liquidity. There are no restrictions on withdrawals.
- (f) This fund is a broadly diversified portfolio of smaller companies in markets with greater political and economic instability, presenting more exposure to operational and liquidity risks than in developed countries, and with currency risks that are not easily hedged. Withdrawals may be made on the last business day of the month by written request with one-day notice.
- (g) This fund is an actively managed, diversified bond portfolio with a total return strategy designed to serve as the fixed-income component for most permanent funds. Withdrawals may be made on the last business day of the month by written request with one-day notice.

Pooled investment funds are valued at net asset values provided by fund management and by the annual audited financial statements of the Texas Presbyterian Foundation (TPF), an ecumenical nonprofit foundation that holds and manages the pooled investments. This valuation method may produce a fair value that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while CCSC believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 7 – PROPERTY

Property consists of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,030,130	\$ 1,030,130
Buildings and leasehold improvements	900,710	884,310
Equipment	258,072	258,072
Vehicles	39,910	39,910
Construction in progress	<u>463,612</u>	<u>408,850</u>
Total property, at cost	2,692,434	2,621,272
Accumulated depreciation	<u>(858,144)</u>	<u>(810,251)</u>
Property, net	<u>\$ 1,834,290</u>	<u>\$ 1,811,021</u>

NOTE 8 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2018</u>	<u>2017</u>
Property, net	\$ 1,370,678	\$ 1,402,171
Designated by Board of Directors for general endowment	2,587,960	2,800,933
Undesignated	132,861	217,061
Designated by Board of Directors for capital projects	73,589	53,862
Designated by Board of Directors for special projects	<u>33,577</u>	<u>33,577</u>
Total net assets without donor restrictions	<u>\$ 4,198,665</u>	<u>\$ 4,507,604</u>

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
Capital	\$ 8,114,118	\$ 4,242,795
Vision Care	250,000	23,149
Back To School	50,000	75,000
Disaster		98,049
Other	<u>850</u>	<u>850</u>
Total subject to expenditure for specified purpose	<u>8,414,968</u>	<u>4,439,843</u>
Subject to spending policy and appropriation:		
General Endowment	608,698	656,829
Freeman Fund	107,376	113,954
Emily Fund	<u>8,836</u>	<u>9,241</u>
Total endowments	<u>724,910</u>	<u>780,024</u>
Total net assets with donor restrictions	<u>\$ 9,139,878</u>	<u>\$ 5,219,867</u>

NOTE 10 – ENDOWMENT

The Endowment was established to assist the Center in meeting its operating needs and includes donor-restricted endowments and a board-designated endowment created by the Center. The Board of Directors of the Endowment has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Endowment classifies the original value of gifts donated to the perpetual endowment as *net assets with donor restrictions* not subject to appropriation or expenditure. The remaining portion of the donor-restricted endowment fund is also not classified as *net assets with donor restrictions* until those amounts are appropriated for expenditure by the Endowment in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Endowment

considers the following factors in making a determination to appropriate accumulated donor-restricted endowment funds:

- The duration and preservation of the funds
- The purposes of the Center and the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Center
- The investment policies of the Endowment

Changes in endowment net assets are as follows:

	BOARD- DESIGNATED ENDOWMENT	WITH DONOR RESTRICTIONS ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	TOTAL
Endowment net assets, December 31, 2016	<u>\$ 2,439,677</u>	<u>\$ 439,731</u>	<u>\$ 230,070</u>	<u>\$ 3,109,478</u>
Contributions	12,500		20,402	32,902
Net investment return	447,648	113,759		561,407
Distributions	<u>(98,892)</u>	<u>(23,938)</u>		<u>(122,830)</u>
Endowment net assets, December 31, 2017	<u>2,800,933</u>	<u>529,552</u>	<u>250,472</u>	<u>3,580,957</u>
Contributions			9,210	9,210
Net investment return	(112,293)	(39,502)		(151,795)
Distributions	<u>(100,680)</u>	<u>(24,822)</u>		<u>(125,502)</u>
Endowment net assets, December 31, 2018	<u>\$ 2,587,960</u>	<u>\$ 465,228</u>	<u>\$ 259,682</u>	<u>\$ 3,312,870</u>

Endowment net asset composition as of December 31, 2018:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity		\$ 259,682	\$ 259,682
Accumulated net investment return		465,228	465,228
Board-designated endowment funds	<u>\$ 2,587,960</u>		<u>2,587,960</u>
Endowment net assets	<u>\$ 2,587,960</u>	<u>\$ 724,910</u>	<u>\$ 3,312,870</u>

Endowment net asset composition as of December 31, 2017:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity		\$ 250,472	\$ 250,472
Accumulated net investment return		529,552	529,552
Board-designated endowment funds	<u>\$ 2,800,933</u>		<u>2,800,933</u>
Endowment net assets	<u>\$ 2,800,933</u>	<u>\$ 780,024</u>	<u>\$ 3,580,957</u>

Investment Policies and Strategy

The purpose of the Endowment is to provide long-term financial support to the Center. Accordingly, the Endowment's strategic asset allocation is based on this long-term perspective. The Endowment Board of Directors recognizes the difficulty of achieving the Endowment's investment objectives in light of the uncertainties and complexities of investment markets. It also recognizes that some risk must be assumed to achieve long-term investment objectives. The target performance objective is that, over a complete market cycle, the overall annualized total return should outperform their relevant benchmarks. Performance objectives have been based upon the assumption that future rates of return will approximate historical rates of return experienced for various asset classes. The Endowment Board of Directors realizes that market performance varies and that a real rate of return may not be achievable during short-term periods.

Spending Policy

Annually, the Endowment distributes 4% of the average market value of the Endowment's funds under management for the preceding twelve quarters. The annual distribution is disbursed over four quarters. Excluded from funds under management are any restricted funds that do not qualify as distributable for the upcoming year. The Freeman Fund distributes income on a quarterly basis to provide warm clothing for the needy. In conjunction with the authorization of the annual distribution, the Endowment Board of Directors reviews this policy in light of current and expected market conditions and the rate of inflation. Other distributions may be made from time to time at the discretion of the Endowment Board of Directors. These policies are consistent with CCSC's objectives to preserve the corpus of the Endowment, grow the total value of the Endowment through investments and gifts, and financially support the mission and activities of the Center.

Loan to the Center

In January 2016, the Endowment loaned the Center \$800,000 to fund the acquisition of land on which the Center plans to construct a new programmatic and administrative facility. The loan bears interest at 4.29% and is payable in installments of \$14,946 until January 2036 at which time any unpaid principal and interest is due. During 2018 and 2017, the Endowment recognized and the Center incurred interest of approximately \$31,000 and \$33,000, respectively, on the loan. These amounts have been eliminated in consolidation.

NOTE 11 – LEASES

The Center has noncancellable operating leases for its resale shop and copy machine. Future minimum lease payments are approximately \$90,000 for 2019.

Total rent expense was approximately \$146,000 in 2018 and \$150,000 in 2017.

NOTE 12 – CONTRIBUTED SERVICES AND MATERIALS

The majority of food distributed by the Center is received by contributions from donors and from discounted food provided by a local food bank. The estimated fair value of these contributions is recognized in the financial statements as contribution revenue and program expense. The estimated fair

value of food donated is based on an average fair value per standard bag of food distributed. Donated clothing is used in the Center's Emergency Services and Back To School programs and is valued based on an estimated fair value per item of clothing distributed. The total value of contributed food was approximately \$649,000 in 2018 and \$846,000 in 2017. The total value of contributed clothing was approximately \$112,000 in 2018 and \$138,000 in 2017.

A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration and clerical support for which no amount has been recognized in the financial statements because the donated services did not meet the criteria for recognition under generally accepted accounting principles. The estimated hours contributed as volunteer services approximated 42,100 and 43,500 hours, respectively, in 2018 and 2017.

NOTE 13 – EMPLOYEE BENEFIT PLAN

The Center maintains a defined contribution §403(b) plan. After one year of service, the Center contributes 3% of each qualified employee's salary to the plan and also matches 50% of employee contributions up to 2% of compensation. Employees are immediately fully vested in the Center's contributions. The Center contributed approximately \$30,000 and \$33,500 to the plan in 2018 and 2017, respectively.

NOTE 14 – COMMITMENTS

The Center began a capital campaign and entered into a contract with an architect. At December 31, 2018, the amount of unfunded commitments is approximately \$139,000.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent to year end, the Center signed a lease for space beginning in June 2019 and expiring in June 2021. The amount of the lease is \$55,369 per year.

Management has evaluated subsequent events through June 4, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
