

# **CARITAS OF WACO**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2017 AND 2016**

**WITH INDEPENDENT AUDITORS' REPORT**

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# CARITAS OF WACO

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PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Caritas of Waco

We have audited the accompanying financial statements of Caritas of Waco (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above presented fairly in all material respects, the financial position of Caritas of Waco as of December 31, 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.

*Pattillo, Brown & Hill, L.L.P.*

Waco, Texas  
March 12, 2018

# **FINANCIAL STATEMENTS**

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**CARITAS OF WACO**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash	\$ 267,692	\$ 223,432
Pledges receivable, current portion	32,952	16,322
Food inventory	365,229	223,802
Nonfood inventory	88,147	131,510
Total current assets	754,020	595,066
Long-term assets:		
Investment in securities	336,876	534,477
Beneficial interest in charitable remainder trust	143,940	132,581
Beneficial interest in assets held by Waco Foundation	1,660,067	1,489,844
Property and equipment, net of accumulated depreciation	2,205,340	2,321,541
Total long-term assets	4,346,223	4,478,443
Total assets	\$ 5,100,243	\$ 5,073,509
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 56,376	\$ 5,298
Accrued vacation	18,066	19,392
Deferred revenue	15,756	-
Total current liabilities	90,198	24,690
<b>NET ASSETS</b>		
Unrestricted net assets:		
Board designated for endowment	1,660,067	1,489,844
Undesignated	3,228,221	3,516,285
Total unrestricted net assets	4,888,288	5,006,129
Temporarily restricted net assets	121,757	42,690
Total net assets	5,010,045	5,048,819
Total liabilities and net assets	\$ 5,100,243	\$ 5,073,509

**The accompanying notes are an integral part of these financial statements.**

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**CARITAS OF WACO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
<b>Revenues and gains</b>				
In-kind donations of food and nonfood products	\$ 14,594,193	\$ -	\$ -	\$ 14,594,193
Contributions	493,040	-	-	493,040
Bequest	48,807	-	-	48,807
Thrift store sales	465,572	-	-	465,572
Program grants	597,876	121,185	-	719,061
Shared maintenance fees	279,872	-	-	279,872
Special events, net expenses of \$26,032	91,904	-	-	91,904
Investment income	12,880	-	-	12,880
Realized gain (loss) on investments	2,463	-	-	2,463
Unrealized gain (loss) on investments	5,270	-	-	5,270
Change in value of charitable remainder trust	11,359	-	-	11,359
Change in value of assets held by Waco Foundation	258,978	-	-	258,978
Released from temporary restriction	42,118	( 42,118)	-	-
Total revenue	<u>16,904,332</u>	<u>79,067</u>	<u>-</u>	<u>16,983,399</u>
<b>Expenses</b>				
Program services:				
In-kind donations	14,496,129	-	-	14,496,129
Emergency assistance	729,176	-	-	729,176
Household products distribution	292,976	-	-	292,976
Thrift stores	376,281	-	-	376,281
Outreach	306,203	-	-	306,203
Supporting services:				
Management and general	756,366	-	-	756,366
Fundraising	65,042	-	-	65,042
Total expenses	<u>17,022,173</u>	<u>-</u>	<u>-</u>	<u>17,022,173</u>
Change in net assets	( 117,841)	79,067	-	( 38,774)
Net assets at beginning of the year	<u>5,006,129</u>	<u>42,690</u>	<u>-</u>	<u>5,048,819</u>
Net assets at the end of the year	<u>\$ 4,888,288</u>	<u>\$ 121,757</u>	<u>\$ -</u>	<u>\$ 5,010,045</u>

**The accompanying notes are an integral part of these financial statements.**

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**CARITAS OF WACO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
<b>Revenues and gains:</b>				
In-kind donations of food and nonfood products	\$ 12,924,021	\$ -	\$ -	\$ 12,924,021
Contributions	524,272	-	-	524,272
Bequest	98,864	-	-	98,864
Thrift store sales	445,988	-	-	445,988
Program grants	255,679	205,830	-	461,509
Shared maintenance fees	258,846	-	-	258,846
Special events, net expenses of \$24,110	87,292	-	-	87,292
Investment income	15,080	-	-	15,080
Realized loss on sale of assets	( 3,583)	-	-	( 3,583)
Unrealized gain (loss) on investments	3,703	-	-	3,703
Change in value of charitable remainder trust	( 2,752)	-	-	( 2,752)
Change in value of assets held by Waco Foundation	81,949	-	-	81,949
Released from temporary restriction	<u>145,648</u>	<u>( 145,648)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>14,835,007</u>	<u>60,182</u>	<u>-</u>	<u>14,895,189</u>
<b>Expenses</b>				
Program services:				
In-kind donations	12,665,615	-	-	12,665,615
Emergency assistance	315,625	-	-	315,625
Household products distribution	275,073	-	-	275,073
Thrift stores	410,441	-	-	410,441
Outreach	371,290	-	-	371,290
Supporting services:				
Management and general	687,723	-	-	687,723
Fundraising	<u>64,033</u>	<u>-</u>	<u>-</u>	<u>64,033</u>
Total expenses	<u>14,789,800</u>	<u>-</u>	<u>-</u>	<u>14,789,800</u>
Change in net assets	45,207	60,182	-	105,389
Net assets at beginning of the year	<u>4,960,922</u>	<u>( 17,492)</u>	<u>-</u>	<u>4,943,430</u>
Net assets at the end of the year	<u>\$ 5,006,129</u>	<u>\$ 42,690</u>	<u>\$ -</u>	<u>\$ 5,048,819</u>

**The accompanying notes are an integral part of these financial statements.**

# CARITAS OF WACO

## SCHEDULE OF FUNCTIONAL EXPENSES

**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Services				
	In-kind Donations	Emergency Assistance	Household Products Distribution	Thrift Stores	Outreach
In-kind nonfood distributed	\$ 7,446,054	\$ -	\$ -	\$ -	\$ -
In-kind food distributed	7,050,075	-	-	-	-
Salaries	-	156,881	205,835	206,975	192,619
Food purchases	-	40,061	-	-	-
Food for families	-	-	-	-	-
Assistance to individuals	-	28,220	-	-	54,549
Utilities	-	253,417	-	20,403	9,080
Depreciation	-	-	-	-	-
Payroll taxes	-	15,233	18,746	20,572	16,803
Insurance	-	-	-	-	-
Repairs and maintenance	-	49,936	17,354	12,399	17,415
Truck	-	-	25,592	-	-
Business & professional services	-	-	-	-	-
Building expense	-	-	-	-	-
Rent/Housing	-	1,170	-	28,200	5,858
Leases	-	-	-	31,598	-
Supplies	-	851	2,777	8,327	4,210
Advertising	-	181,365	-	17,936	-
Printing and postage	-	-	-	-	-
Telephone	-	-	2,536	5,054	-
Travel	-	176	-	-	978
Miscellaneous and other	-	1,831	4,037	7,885	4,691
Waste disposal	-	-	16,099	7,228	-
Bank fees/bad debt	-	35	-	9,704	-
<b>Total expenses</b>	<b>\$ 14,496,129</b>	<b>\$ 729,176</b>	<b>\$ 292,976</b>	<b>\$ 376,281</b>	<b>\$ 306,203</b>

**The accompanying notes are an integral part of these financial statements.**

Supporting Services

<u>Management and General</u>	<u>Fundraising</u>	<u>2017 Total</u>
\$ -	\$ -	\$ 7,446,054
-	-	7,050,075
299,743	59,245	1,121,298
-	-	40,061
37,493	-	37,493
11,603	-	94,372
20,918	-	303,818
153,661	-	153,661
21,897	4,854	98,105
72,067	-	72,067
22,165	-	119,269
-	-	25,592
39,532	394	39,926
1,069	-	1,069
-	-	35,228
-	-	31,598
24,669	-	40,834
8,565	549	208,415
14,560	-	14,560
6,885	-	14,475
-	-	1,154
18,002	-	36,446
643	-	23,970
<u>2,894</u>	<u>-</u>	<u>12,633</u>
<u>\$ 756,366</u>	<u>\$ 65,042</u>	<u>\$ 17,022,173</u>

# CARITAS OF WACO

## SCHEDULE OF FUNCTIONAL EXPENSES

**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Services				
	In-kind Donations	Emergency Assistance	Household Products Distribution	Thrift Stores	Outreach
In-kind nonfood distributed	\$ 7,712,762	\$ -	\$ -	\$ -	\$ -
In-kind food distributed	4,952,853	-	-	-	-
Salaries	-	125,187	184,320	213,875	188,122
Food purchases	-	52,897	-	-	-
Food for families	-	-	-	-	-
Assistance to individuals	-	10,531	-	-	119,149
Utilities	-	67,364	-	21,354	6,228
Depreciation	-	-	-	-	-
Payroll taxes	-	10,950	16,579	19,982	16,059
Insurance	-	-	-	-	-
Repairs and maintenance	-	48,028	24,929	13,790	18,713
Ladies of Charity	-	-	-	800	-
Truck	-	-	22,953	-	23
Professional fees	-	-	-	-	-
Building expense	-	-	-	-	-
Rent	-	-	-	25,400	14,240
Lease	-	-	-	34,136	-
Supplies	-	-	8,184	8,673	3,797
Advertising	-	-	-	46,888	-
Printing and postage	-	-	-	-	-
Telephone	-	-	2,515	4,882	-
Miscellaneous and other	-	668	3,715	6,993	4,959
Waste disposal	-	-	11,878	5,804	-
Bank fees	-	-	-	7,864	-
<b>Total expenses</b>	<b>\$ 12,665,615</b>	<b>\$ 315,625</b>	<b>\$ 275,073</b>	<b>\$ 410,441</b>	<b>\$ 371,290</b>

**The accompanying notes are an integral part of these financial statements.**



Supporting Services

<u>Management and General</u>	<u>Fundraising</u>	<u>2016 Total</u>
\$ -	\$ -	\$ 7,712,762
-	-	4,952,853
240,964	58,338	1,010,806
-	-	52,897
41,373	-	41,373
10,797	-	140,477
21,682	-	116,628
154,968	-	154,968
19,852	4,689	88,111
74,523	-	74,523
28,873	-	134,333
-	-	800
-	-	22,976
33,101	-	33,101
1,289	-	1,289
-	-	39,640
-	-	34,136
26,810	514	47,978
4,378	492	51,758
9,604	-	9,604
7,885	-	15,282
6,667	-	23,002
488	-	18,170
4,469	-	12,333
<u>\$ 687,723</u>	<u>\$ 64,033</u>	<u>\$ 14,789,800</u>

**CARITAS OF WACO**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$( 38,774)	\$ 105,389
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	153,661	154,968
Loss on sale of assets	-	3,583
Losses (gains) on sales of securities	74,749	( 22,119)
Changes in:		
Pledge receivable	( 16,630)	( 8,925)
Inventories	( 98,064)	( 258,406)
Change in value of beneficial interest in charitable remainder trust	( 11,359)	2,752
Change in value of beneficial interest in assets held by Waco Foundation	( 170,223)	( 81,949)
Accrued liabilities	( 1,326)	( 620)
Other liabilities	<u>66,834</u>	<u>2,420</u>
Net cash used in operating activities	<u>( 41,132)</u>	<u>( 102,907)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds on sales of securities	223,500	189,456
Proceeds on sales of property and equipment	-	8,238
Purchase of securities (including dividends reinvested)	( 100,648)	( 66,108)
Purchase of property and equipment	<u>( 37,460)</u>	<u>( 42,104)</u>
Net cash provided by investing activities	<u>85,392</u>	<u>89,482</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	44,260	( 13,425)
<b>CASH, BEGINNING OF YEAR</b>	<u>223,432</u>	<u>236,857</u>
<b>CASH, END OF YEAR</b>	<u>\$ 267,692</u>	<u>\$ 223,432</u>

**The accompanying notes are an integral part of these financial statements.**

# CARITAS OF WACO

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Nature of Activities**

Caritas of Waco (“Caritas” or the “Organization”) is a nonprofit organization dedicated to providing direct assistance to the needy of Central Texas. Caritas primarily provides emergency assistance by distributing to individuals and families a monthly allocation of food, which is obtained from various sources including local food drives, businesses and congregations, salvage from grocery stores, and Capital Area Food Bank. Caritas also provides emergency assistance to meet needs for clothing, utilities, prescription medications, rent, transportation, and emergency lodging. Caritas receives support in the form of contributions from individual donors, foundations, and corporations. Caritas also sells donated goods via thrift stores located in Waco and Bellmead.

#### **Basis of Accounting**

The financial statements of Caritas have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

#### **Basis of Presentation**

In accordance with ASC 958, Not-for-Profit Entities, the Organization reports information regarding its financial position and activities according to three classes of net assets:

##### **Unrestricted Net Assets**

Unrestricted Net Assets represent resources over which the Board of Directors has discretionary control and can be used currently for the general purposes of the Organization in accordance with its bylaws. These designations of unrestricted resources by the governing board do not have the same legal requirements as do restrictions of funds.

##### **Temporarily Restricted Net Assets**

Temporarily restricted net assets represent resources currently available for use, but expendable only for those operating purposes or time restriction specified by the donor.

##### **Permanently Restricted Net Assets**

Permanently restricted net assets represent principal amounts of gifts and bequests which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity or a specified period, with only the income to be utilized.

### **Designation of Unrestricted Net Assets**

It is the policy of the Board of Directors of the Organization to review its plans for future improvements and acquisitions from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing of such improvements and acquisitions. Designation of unrestricted net assets for 2017 and 2016 are discussed further in the footnote “Board Designated Net Assets” below.

### **Estimates**

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates. The Organization’s significant estimates include the useful lives of buildings and equipment with related depreciation, fair value of investments, and the valuation of donated goods revenue and inventory.

### **Cash Equivalents**

For the purposes of the statement of cash flows, Caritas considers all highly liquid investments with original maturity of three months or less at the date of acquisition to be “cash equivalents”. There were no cash equivalents as of December 31, 2017 and 2016.

### **Restricted Cash**

There were no restricted cash amounts for the year ended December 31, 2017 and 2016.

### **Pledges Receivable**

Unconditional promises to give are recorded as receivables and support when received. The pledges have not been discounted. Caritas expects that the promise will be fully paid and has determined that no allowance for uncollectible amounts is necessary. These pledges are primarily related to the capital campaign to renovate the Organization’s facility and are payable over a three year period.

### **Inventory**

Inventories consist of both food and nonfood items, and are valued using fair value estimates as discussed in the footnote “Donated Inventory”.

### **Marketable Securities**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position.

### **Investment Income and Gains**

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

### **Beneficial Interest in Remainder Trust**

Caritas was named as a 50% beneficiary in an irrevocable charitable remainder unitrust agreement executed on June 29, 1995. The trust agreement places no restrictions on the beneficiaries as to the use of the donated trust assets and states that Caritas is to receive an equal distribution of the remaining trust assets, along with another not-for-profit organization, after the death of both donors to the trust. The fair market value of the total trust assets on the date of initial funding in 1995 was \$315,669. The value of Caritas' interest in the remainder trust is recorded in the financial statements with any re-evaluation of the expected future distribution to Caritas recognized as a change in the value of the remainder trust in the statement of activities during the year of change. The account is valued at the fair value of the underlying investment at year-end due to the fact that the investment interest rate and the distribution rate to the donors is the same. The amount recorded on the statements of financial position as of December 31, 2017 and 2016 is \$143,940 and \$132,581, respectively.

### **Beneficial Interest in Assets Held by Waco Foundation**

Caritas has two accounts under agreement to be managed by the Waco Foundation, a community foundation. The income earned (excluding net realized and unrealized appreciation) on the transferred assets will be paid at least annually to Caritas. The income may, if both Caritas and Waco Foundation agree, remain and accumulate with the principal. Distributions of principal may be made at the sole discretion of Waco Foundation. It is intended that assets be held for the benefit of Caritas as long as the need for the fund exists. However, the assets are subject to the governing documents of Waco Foundation and the policies and procedures of its governing body. Consequently, Waco Foundation has the right to substitute another beneficiary in the place of Caritas without the approval of Caritas. A beneficial interest in assets held by others has been recorded in the statement of financial position at the fair value of the underlying assets, which was \$1,660,067 and \$1,489,844 at December 31, 2017 and 2016, respectively.

In addition, the Waco Foundation holds funds donated directly to the Waco Foundation for the benefit of Caritas which are not reflected in these financial statements. The fair value of these assets was \$405,609 and \$363,609 at December 31, 2017 and 2016, respectively.

### **Property and Equipment**

Property and equipment are capitalized at cost. Fixed assets that are donated to the Organization are recorded at fair market value at the time of donation. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 5 to 40 years.

## **Restricted and Unrestricted Revenue**

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

## **Support and Expenses**

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Caritas reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. Caritas reports gifts of fixed assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained. Caritas reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses, including routine repairs and maintenance and planned major maintenance activities, are recorded when incurred in accordance with the accrual basis of accounting.

## **Donated Goods and Services**

Caritas reports the fair value of gifts of donated food and other products over which it has control (i.e., variance power) as unrestricted 'In kind donations of food and nonfood products' and, shortly thereafter, as expense when distributed to individuals and organizations. Caritas estimates the average wholesale value of one pound of donated food product to be \$1.69 for 2017 and 2016 and the average wholesale value of one pound of donated nonfood product to be \$3.98 for 2017 and 2016 based on studies performed by Feeding America.

Caritas receives noncash contributions of clothes and other items for resale in its thrift stores. Significant portions of these contributions are salable and have value, but the value is not determined until the items are sold.

A substantial number of volunteers have donated significant amounts of their time to Caritas and its programs; however, these donated services are not reflected in the financial statements since these services do not create or enhance nonfinancial assets or require special expertise.

## Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

## Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization's Returns of Organization Exempt from Income Tax (Form 990) for the last three years are subject to examination by regulatory authorities.

## 2. MARKETABLE SECURITIES

Marketable securities as of December 31, 2017 and 2016 are summarized as follows:

	December 31, 2017		
	Historical Cost	Unrealized Gain (Loss)	Fair Value
Money market	\$ 44,147	\$ -	\$ 44,147
Mutual Funds:			
Open-ended mutual funds	5,000	175	5,175
Equity:			
Stocks and ETFs	95,301	11,313	106,614
Fixed:			
Corporate bonds	<u>184,979</u>	<u>( 4,039)</u>	<u>180,940</u>
	<u>\$ 329,427</u>	<u>\$ 7,449</u>	<u>\$ 336,876</u>
	December 31, 2016		
	Historical Cost	Unrealized Gain (Loss)	Fair Value
Money market	\$ 126,629	\$ -	\$ 126,629
Mutual Funds:			
Open-ended mutual funds	5,000	29	5,029
Equity:			
Stocks and ETFs	94,994	6,777	101,771
Fixed:			
Corporate bonds	243,574	( 3,013)	240,561
US government bonds	44,927	344	45,271
Certificates of deposit	10,000	15	10,015
Foreign bonds	<u>5,218</u>	<u>( 17)</u>	<u>5,201</u>
	<u>\$ 530,342</u>	<u>\$ 4,135</u>	<u>\$ 534,477</u>

Unrealized gain (loss) in the amount of \$5,270 and \$3,703 for the years ended December 31, 2017 and 2016, respectively, as shown on the statements of activities, represents current year investment performance.

### 3. DONATED INVENTORY

Caritas receives, sorts, stores, and distributes donated commodities from various sources. Physical inventories of donated commodities consisted of the following at December 31, 2017 and 2016:

	<u>Inventory Pounds</u>	<u>Estimated Fair Value</u>	<u>Inventory Dollar Value</u>
December 31, 2017			
Food inventory	216,112	\$ 1.69	\$ 365,229
Nonfood inventory			<u>88,147</u>
			<u>\$ 453,376</u>
December 31, 2016			
Food inventory	132,427	\$ 1.69	\$ 223,802
Nonfood inventory			<u>131,510</u>
			<u>\$ 355,312</u>

Caritas estimates food inventory to be valued at \$1.69 per pound, as further discussed in the “Donated Goods and Services” section of footnote 1. The majority of nonfood inventory is valued at anticipated sales price of the item at a thrift store location, or if unknown, \$3.98 per pound.

Expenses associated with handling and maintaining donated inventory are shared with organizations that Caritas receives food from and distributes nonfood products to. Amounts received from other organizations to recover costs are reported as income (shared maintenance fees and in-kind donations) on the statements of activities. Amounts paid are reported as expenses (food purchases and repairs and maintenance) on the statements of functional expenses.

### 4. BENEFICIAL INTEREST IN REMAINDER TRUST

The beneficial interest in the remainder trust as of December 31, 2017 and 2016 are summarized as follows:

	<u>December 31, 2017</u>		
	<u>Historical Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Fair Value</u>
Equities	\$ 93,423	\$ 14,953	\$ 108,376
Fixed income	18,377	( 35)	18,342
Hedge funds	15,143	571	15,714
Tangible assets	<u>1,387</u>	<u>121</u>	<u>1,508</u>
	<u>\$ 128,330</u>	<u>\$ 15,610</u>	<u>\$ 143,940</u>



	December 31, 2016		
	Historical Cost	Unrealized Gain (Loss)	Fair Value
Cash	\$ 1,289	\$ -	\$ 1,289
Equities	79,337	9,354	88,691
Fixed income	18,649	( 181)	18,468
Hedge funds	12,805	310	13,115
Real estate	7,658	377	8,035
Tangible assets	<u>3,960</u>	<u>( 977)</u>	<u>2,983</u>
	<u>\$ 123,698</u>	<u>\$ 8,883</u>	<u>\$ 132,581</u>

## 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 20,000	\$ 20,000
Building and improvements	2,426,484	2,426,484
Furniture and equipment	<u>901,400</u>	<u>863,940</u>
	3,347,884	3,310,424
Less accumulated depreciation	<u>( 1,142,544)</u>	<u>( 988,883)</u>
	<u>\$ 2,205,340</u>	<u>\$ 2,321,541</u>

Depreciation charged to expense totaled \$153,661 and \$154,968 during 2017 and 2016, respectively.

## 6. FAIR VALUE MEASUREMENTS

ASC 820, “*Fair Value Measurements and Disclosures*,” establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include:

- Quoted market prices for similar assets or liabilities in active markets;
- Quoted prices for identical assets or liabilities in inactive markets;

- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full-term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets recorded at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

*Cash and Money markets*—

These funds are recorded at face value

*Mutual Funds*—

Valued at daily closing prices as reported by the fund.

*Equities (Common Stock)*—

Valued at the closing price reported on the active market on which the individual securities are traded

*Equities (ETFs)*—

Valued at the daily closing prices as reported by the fund. These funds are required to publish their NAV and to transact at that price

*Hedge funds, real estate and other tangible assets* –

Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value of yields currently available on comparable securities of issuers with similar credit ratings

*Fixed income (bonds)*—

Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value of yields currently available on comparable securities of issuers with similar credit ratings

*Waco Foundation* –

Valued at fair value of the fund's net assets as determined by the trustee of the fund, primarily using quoted prices for similar assets in active markets.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis as of December 31, 2017 and 2016.

Fair Value Measurements at Reporting Date Using

December 31, 2017	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices for Similar Assets (Level 2)
Equities	\$ 214,990	\$ 214,990	\$ -
Fixed	199,282	199,282	-
Money market	44,147	-	44,147
Mutual funds	5,175	5,175	-
Hedge funds and tangible assets	17,222	-	17,222
Assets at Waco Foundation	<u>1,660,067</u>	<u>-</u>	<u>1,660,067</u>
Total at December 31, 2017	<u>\$ 2,140,883</u>	<u>\$ 419,447</u>	<u>\$ 1,721,436</u>
December 31, 2016			
Equities	\$ 190,462	\$ 190,462	\$ -
Fixed	319,516	319,516	-
Cash equivalents	1,289	-	1,289
Money market	126,629	-	126,629
Mutual funds	5,029	5,029	-
Hedge funds, real estate and tangible assets	24,133	-	24,133
Assets at Waco Foundation	<u>1,489,844</u>	<u>-</u>	<u>1,489,844</u>
Total at December 31, 2016	<u>\$ 2,156,902</u>	<u>\$ 515,007</u>	<u>\$ 1,641,895</u>

Caritas may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets.

There were no assets measured at fair value on a nonrecurring basis in 2017 and 2016.

## 7. BOARD DESIGNATED NET ASSETS

The Board of Directors of Caritas has designated certain assets for the establishment of an endowment fund to provide income for the ongoing operations and maintenance of the Organization. As discussed in the footnote “Summary of Significant Accounting Policies” above, internally designated amounts are reported as a component of unrestricted net assets. At December 31, 2016 and 2015, Caritas’ endowment consisted entirely of board-designated funds. Caritas has entrusted the management of its endowment funds to the Waco Foundation. The net assets of the endowment and the changes therein were as follows for 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Endowment net assets, January 1	\$ 1,489,844	\$ 1,407,895
Net income/ appreciation	178,646	90,149
Investment and administrative fees and grants approved	<u>( 8,423)</u>	<u>( 8,200)</u>
Endowment net assets, December 31	<u>\$ 1,660,067</u>	<u>\$ 1,489,844</u>

## 8. CONCENTRATIONS OF CREDIT RISK

All accounts, interest bearing and noninterest bearing, are insured by the FDIC up to \$250,000 per depositor at each separately charter FDIC-insured depository institution. As of December 31, 2017, and 2016, Caritas had uninsured cash balances of \$29,163 and \$0, respectively.

Caritas maintains cash and other short-term investments with stock brokerage firms. These investments are uninsured and represent a concentration of credit risk to Caritas.

During 2017 and 2016, a substantial portion of in-kind donations of nonfood products were received from a single donor. The current level of Caritas’ operations and program services would be significantly impacted if contributions from this donor were discontinued.

## 9. RECLASSIFICATIONS

Some items in prior year financial statements have been reclassified to conform to the current year presentation.

## 10. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through March 12, 2018, the date at which the financial statements were available to be issued, and determined that there are no events to disclose.