REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

# CHRISTIAN COMMUNITY ACTION

**June 30, 2018 and 2017**

MOSSADAMS

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# Report of Independent Auditors

To the Board of Directors
Christian Community Action

## Report On the Financial Statements

We have audited the accompanying financial statements of Christian Community Action (the Organization), which comprise the statements of financial position as of June 30, 2018 and 2017, 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Christian Community Action as of June 30, 2018 and 2017, and the change in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Dallas, Texas
December 17, 2018

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 384,515 | $ 602,575 |
| Investments | 7,400,883 | - |
| Accounts receivable | 89,708 | 71,249 |
| Note receivable - current portion | 375,000 | - |
| Inventories | 251,249 | 234,433 |
| Inventories related to discontinued operations | - | 1,070,088 |
| Prepaid expenses | 2,784 | 46,179 |
| Total current assets | 8,504,139 | 2,024,524 |
| NON-CURRENT ASSETS | | |
| Cash and cash equivalents - restricted to capital improvements | - | 15,646 |
| Pledges receivable - noncurrent portion | - | 200,000 |
| Note receivable - noncurrent portion | 937,500 | - |
| Property and equipment, net | 3,190,694 | 3,317,636 |
| Property and equipment related to discontinued operations, net | - | 6,197,655 |
| | 4,128,194 | 9,730,937 |
| Total assets | $ 12,632,333 | $ 11,755,461 |
| **LIABILITIES AND NET ASSETS** | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | $ 77,839 | $ 107,802 |
| Payroll and related liabilities | 52,118 | 141,943 |
| Other liabilities | 7,525 | 28,754 |
| Custodial client payables | 1,081 | 1,598 |
| Deferred rent expense - related to discontinued operations | - | 10,679 |
| Notes payable - current portion | - | 592,185 |
| Total current liabilities | 138,563 | 882,961 |
| LONG-TERM LIABILITIES | | |
| Notes payable - noncurrent portion | - | 760,000 |
| | - | 760,000 |
| Total liabilities | 138,563 | 1,642,961 |
| NET ASSETS | | |
| Unrestricted | 12,463,011 | 9,795,676 |
| Temporarily restricted | 30,759 | 316,824 |
| Total net assets | 12,493,770 | 10,112,500 |
| Total liabilities and net assets | $ 12,632,333 | $ 11,755,461 |

# Christian Community Action

## Statement of Activities
## For The Year Ended June 30, 2018

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| REVENUES AND SUPPORT | | | |
| Contributions | $ 911,821 | $ 157,768 | $ 1,069,589 |
| Donated goods and services | 2,274,240 | - | 2,274,240 |
| Government grants | - | 240,277 | 240,277 |
| United Way grants | - | 30,000 | 30,000 |
| Grants, foundations and other | 78,882 | 308,008 | 386,890 |
| Investment income | 123,658 | - | 123,658 |
| R2S donation revenue | 403,339 | - | 403,339 |
| Other income | 92,983 | - | 92,983 |
| | 3,884,923 | 736,053 | 4,620,976 |
| NET ASSETS RELEASED FROM RESTRICTIONS | 1,022,118 | (1,022,118) | - |
| TOTAL REVENUES AND SUPPORT | 4,907,041 | (286,065) | 4,620,976 |
| EXPENSES | | | |
| Program services | 4,098,191 | - | 4,098,191 |
| Fundraising | 776,109 | - | 776,109 |
| Management and general | 109,847 | - | 109,847 |
| TOTAL FUNCTIONAL EXPENSES | 4,984,147 | - | 4,984,147 |
| TOTAL EXPENSES | 4,984,147 | - | 4,984,147 |
| CHANGE IN NET ASSETS BEFORE DISCONTINUED OPERATIONS | (77,106) | (286,065) | (363,171) |
| DISCONTINUED OPERATIONS | | | |
| Gain from sale of assets and inventory, net | 2,672,412 | - | 2,672,412 |
| Change in net assets from operations of ReSale | 72,029 | - | 72,029 |
| | 2,744,441 | - | 2,744,441 |
| CHANGE IN NET ASSETS | 2,667,335 | (286,065) | 2,381,270 |
| NET ASSETS, beginning of year | 9,795,676 | 316,824 | 10,112,500 |
| NET ASSETS, end of year | $ 12,463,011 | $ 30,759 | $ 12,493,770 |



See accompanying notes.

# Christian Community Action
## Statement of Activities
## For The Year Ended June 30, 2017

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| REVENUES AND SUPPORT | | | |
| Contributions | $ 1,045,960 | $ 300,536 | $ 1,346,496 |
| Donated goods and services | 1,313,352 | - | 1,313,352 |
| Government grants | - | 217,677 | 217,677 |
| United Way grants | - | 30,000 | 30,000 |
| Grants, foundations and other | 64,000 | 244,946 | 308,946 |
| Investment loss | (249) | - | (249) |
| Other income | 17,989 | - | 17,989 |
| | 2,441,052 | 793,159 | 3,234,211 |
| NET ASSETS RELEASED FROM RESTRICTIONS | 763,991 | (763,991) | - |
| TOTAL REVENUES AND SUPPORT | 3,205,043 | 29,168 | 3,234,211 |
| EXPENSES | | | |
| Program services | 2,928,372 | - | 2,928,372 |
| Fundraising | 889,098 | - | 889,098 |
| Management and general | 352,358 | - | 352,358 |
| TOTAL FUNCTIONAL EXPENSES | 4,169,828 | - | 4,169,828 |
| TOTAL EXPENSES | 4,169,828 | - | 4,169,828 |
| CHANGE IN NET ASSETS BEFORE DISCONTINUED OPERATIONS | (964,785) | 29,168 | (935,617) |
| DISCONTINUED OPERATIONS | | | |
| Change in net assets from operations of ReSale | 525,257 | - | 525,257 |
| CHANGE IN NET ASSETS | (439,528) | 29,168 | (410,360) |
| NET ASSETS, beginning of year | 10,235,204 | 287,656 | 10,522,860 |
| NET ASSETS, end of year | $ 9,795,676 | $ 316,824 | $ 10,112,500 |

## Christian Community Action
### Statement of Functional Expenses
### For The Year Ended June 30, 2018

| | Program Services | Fundraising | Management & General | Total |
|---|---|---|---|---|
| DIRECT SUPPORT | | | | |
| Permanent housing | $ 280,292 | $ - | $ - | $ 280,292 |
| Senior program expense | 10,578 | - | - | 10,578 |
| Utilities (includes government grants) | 74,341 | - | - | 74,341 |
| Food purchased and in-kind | 1,753,205 | - | - | 1,753,205 |
| Direct goods and services | 548,677 | - | - | 548,677 |
| Clothing and household items | 89,812 | - | - | 89,812 |
| Transportation | 14,202 | - | - | 14,202 |
| Miscellaneous | 62 | - | - | 62 |
| Education | 3,724 | - | - | 3,724 |
| Total direct support | 2,774,893 | - | - | 2,774,893 |
| OPERATING EXPENSES | | | | |
| Compensation and benefits | 1,010,041 | 465,889 | 68,880 | 1,544,810 |
| Communications | 16,091 | 11,893 | 2,923 | 30,907 |
| Occupancy and equipment cost | 176,530 | 40,277 | 21,921 | 238,728 |
| Promotional costs | 15,951 | 133,774 | 223 | 149,948 |
| Professional services and other expenses | 96,234 | 122,759 | 14,358 | 233,351 |
| Donated goods and services | 1,181 | 213 | 216 | 1,610 |
| Interest expense | 7,270 | 1,304 | 1,326 | 9,900 |
| Total operating expenses | 1,323,298 | 776,109 | 109,847 | 2,209,254 |
| TOTAL FUNCTIONAL EXPENSES | $ 4,098,191 | $ 776,109 | $ 109,847 | $ 4,984,147 |
| Percentage of total functional expenses | 82.23% | 15.57% | 2.20% | 100% |



See accompanying notes.

# Christian Community Action
## Statement of Functional Expenses
## For The Year Ended June 30, 2017

| | Program Services | Fundraising | Management & General | Total |
|---|---|---|---|---|
| DIRECT SUPPORT | | | | |
| Permanent housing | $ 174,252 | $ - | $ - | $ 174,252 |
| Senior program expense | 10,701 | - | - | 10,701 |
| Utilities (includes government grants) | 73,450 | - | - | 73,450 |
| Food purchased and in-kind | 1,157,828 | - | - | 1,157,828 |
| Direct goods and services | 248,635 | - | - | 248,635 |
| Clothing and household items | 83,438 | - | - | 83,438 |
| Transportation | 12,103 | - | - | 12,103 |
| Miscellaneous | 1,160 | - | - | 1,160 |
| Education | 1,889 | - | - | 1,889 |
| Total direct support | 1,763,456 | - | - | 1,763,456 |
| OPERATING EXPENSES | | | | |
| Compensation and benefits | 961,825 | 536,712 | 239,326 | 1,737,863 |
| Communications | 8,302 | 16,773 | 8,189 | 33,264 |
| Occupancy and equipment cost | 115,535 | 38,729 | 64,429 | 218,693 |
| Promotional costs | 19,793 | 161,736 | 866 | 182,395 |
| Professional services and other expenses | 53,892 | 132,895 | 34,416 | 221,203 |
| Donated goods and services | 1,090 | 235 | 535 | 1,860 |
| Interest expense | 4,479 | 2,018 | 4,597 | 11,094 |
| Total operating expenses | 1,164,916 | 889,098 | 352,358 | 2,406,372 |
| TOTAL FUNCTIONAL EXPENSES | $ 2,928,372 | $ 889,098 | $ 352,358 | $ 4,169,828 |
| Percentage of total functional expenses | 70.23% | 21.32% | 8.45% | 100% |

## Christian Community Action
### Statements of Cash Flows

| | For Year Ended June 30, 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ 2,381,270 | $ (410,360) |
| Change in net assets from discontinued operations | 2,744,441 | 525,257 |
| Change in net assets from continuing operations | (363,171) | (935,617) |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation and amortization | 145,544 | 167,103 |
| Net realized and unrealized loss on investments | 2,775 | - |
| Allowance for uncollectible pledges receivable | - | 28,703 |
| Inventories | (16,816) | 38,916 |
| Changes in assets: | | |
| Accounts receivable | (18,459) | 19,560 |
| Prepaid expenses | 43,395 | 6,802 |
| Changes in liabilities: | | |
| Accounts payable and accrued expenses | (29,963) | (12,463) |
| Accrued liabilities | (111,571) | (85,505) |
| Net cash used in operating activities of continuing operations | (348,266) | (772,501) |
| Net cash provided by (used in) operating activities of discontinued operations | (102,072) | 705,570 |
| NET CASH USED IN OPERATING ACTIVITIES | (450,338) | (66,931) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (78,047) | (4,410) |
| Purchases of investments | (7,403,658) | - |
| Principal for loan issued for sale of fixed assets | 187,500 | - |
| Change in cash restricted for purchase of property and equipment | 15,646 | (8) |
| Net cash used in investing activities of continuing operations | (7,278,559) | (4,418) |
| Net cash provided by investing activities of discontinued operations | 8,850,000 | - |
| NET CASH PROVIDED BY USED IN INVESTING ACTIVITIES | 1,571,441 | (4,418) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net cash provided by (used in) financing activities of continuing operations | - | - |
| Net cash used in financing activities of discontinued operations | (1,339,162) | (1,377) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | (1,339,162) | (1,377) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (218,059) | (72,726) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 602,575 | 675,301 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 384,516 | $ 602,575 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Interest paid | $ 33,034 | $ 48,457 |
| SUPPLEMENTAL SCHEDULE OF NON-CASH OPERATING ACTIVITIES | | |
| Donated goods received | $ 2,205,180 | 1,274,434 |
| Donated goods distributed | $ 2,188,364 | $ 1,200,491 |



See accompanying notes.

**Note 1 – Organization and Summary of Accounting Policies**

The summary of significant accounting policies of Christian Community Action (the Organization) is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and have been consistently applied in the preparation of the financial statements.

**Organization**
The Organization was formed in 1973 in Lewisville, Texas. The Organization is a faith-based nonprofit agency dedicated to providing help to lower income families by providing them with a wide range of programs and services that address their needs. Current programs include housing, financial assistance, food distribution, life-skills training, ESL classes, socialization services for elderly independent low income people, and job placement. The Organization receives cash donations from individuals, local churches, special events, and grants from private corporations, foundations, and federal, state, and local governments and funding through an agreement for the collection of donated items in the Organization's service area.

During November 2017, the Organization entered into an asset purchase agreement (the Agreement) with Recycle 2 Support (R2S) for the sale of assets and inventory related to resale operations owned and operated by the Organization. R2S operates Thrift Giant resale stores. As a result of receiving donated items for the benefit of the Organization, R2S will provide continued funding to the Organization. Prior to the sale, the Organization used proceeds from the resale operations for funding of programs and services. See Note 2 for further information related to the sale of resale operations.

**Basis of Presentation**
The financial statements have been prepared on the accrual basis of accounting in accordance with principles of accounting generally accepted in the United States of America. Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes thereto are classified as follows:

*Unrestricted Board Designated Net Assets* – Net assets not subject to donor imposed stipulations but designated for a specific purpose by the Board of Directors.

*Unrestricted Net Assets* – Net assets not subject to donor-imposed stipulations.

*Temporarily Restricted Net Assets* – Net assets subject to donor-imposed stipulation that may or will be met by actions of the Organization and/or the passage of time.

*Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulation. There were none at June 30, 2018 and 2017.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

**Note 1 – Organization and Summary of Accounting Policies (continued)**

**Cash and Cash Equivalents**
The Organization considers money market accounts, not designated for future purposes by the Organization's Board of Directors or restricted to capital improvements, with original maturity dates of 90 days or less, to be cash equivalents. The Organization places its cash, which, at times, may exceed federally insured limits, with high credit quality institutions. The Organization has not experienced any losses on such accounts.

**Investments**
Investments in cash, money market, certificates of deposit accounts, equities, and other fixed income securities are recorded at their fair value. Securities that have been donated are recorded at fair value as of the date of the gift. Increases or decreases in fair value are recorded as unrealized gains and losses in investment income.

Proceeds from the transfer of assets and inventory as part of the Agreement were placed into an investment account overseen by an independent investment advisor. The Organization's Board of Directors designated an Investment Committee to oversee the investment advisor and monitor the results of the investment activity. See Note 4 for information related to the fair value measurement of the investment held.

Use of investment funds are subject to approval by the Board of Directors. Board designations do not meet the criteria for being classified as restricted net assets. Board designations are not donor-imposed restrictions and are subject to change at the Board's discretion.

**Accounts Receivable**
Accounts receivable represent amounts reimbursable through government grants, amounts due from credit card processing companies, and amounts due from R2S related to donated items. The credit card receivable balance exists because of the two to three-day delay between the charge and the deposit in the Organization's bank account. Merchandise sales and donations primarily occur with individuals who reside in North Central Texas. Amounts due from R2S are due to reimbursement of certain expenses related to resale operations that have yet to be fully transferred from the Organization and payment for the collection and sale of donated items pursuant to the Agreement.

Management assesses the payment history, historical credit losses, and other known information pertaining to organizations and individuals with outstanding balances to determine allowances recorded against accounts receivable. Based on management's assessment of government grants, credit card processing, and payments by R2S, it was concluded that bad debt losses on balances outstanding at year-end are immaterial. Therefore, no allowance for doubtful accounts was reflected.

**Note 1 – Organization and Summary of Accounting Policies (continued)**

**Note Receivable**

Note receivable is carried at unpaid principal balances, less any allowance for loan losses. The allowance for loan losses is increased by charges to the change in net assets and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the Organization's past loan loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. Past due status is determined based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The Organization's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, or for other reasons.

Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

**Inventories**

The Organization holds inventory which consists of housewares, clothing, food, etc. These items are obtained primarily from donations but also from purchases at discounted prices. Pursuant to the Agreement, the Organization transferred all inventory related to the resale operations to R2S. The remaining inventory primarily consist of food and clothing used by programs and services. The value of the inventory is based on historical averages which have been derived from retail sale prices of items in the various categories.

**Property and Equipment**

Property and equipment are stated at cost, or estimated fair value if donated at the date the equipment is donated, less accumulated depreciation and amortization. Major expenditures and expenditures which substantially increase useful lives are capitalized. Maintenance, repairs and replacement, which do not improve or extend the lives of the respective assets, are expensed when incurred. When property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed, and any gain or loss is included in income. Interest incurred to finance assets under construction is capitalized as construction cost until the assets are placed in service.

Depreciation and amortization is provided for over the estimated useful lives of the assets using the straight-line method as follows:

| | |
|---|---|
| Buildings and improvements | 25 – 40 Years |
| Furniture and equipment | 3 – 5 Years |
| Software | 5 – 10 Years |
| Vehicles | 5 Years |

**Note 1 – Organization and Summary of Accounting Policies (continued)**

**Revenue Recognition**
*Contributions* – Contributions are recognized when received or a donor makes a pledge to give to the Organization that is, in substance, unconditional. Unconditional promises to give expected to be collected within one year, are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their net realizable value, using interest rates applicable to the years in which the promises are to be received and adjusted for the credit risk of the donor based on management assessment. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions (primarily restrictions as to purpose and/or time) 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.

*Donated Goods and Services* – Donated goods are recognized as revenue at their estimated fair value during the period received. Donated services are recognized as revenue at their estimated fair value, if both of the following criteria are met: the services require special skills and the services are provided by individuals possessing those skills; and the services would typically need to be purchased, if not donated. Although the Organization may utilize the services of outside volunteers, the fair value of these services have not been recognized in the accompanying financial statements since they do not meet the criteria for recognition under U.S. GAAP.

*Grants* – Grants are recognized at fair value, as revenue, when received or unconditionally promised and collection is deemed to be reasonably certain. The Organization reports grants as temporarily restricted support if such gifts are received with donor stipulations that limit the use of the donated assets, unless there are written agreement which supersede those stipulations. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

*R2S Donation Revenue* – Pursuant to the Agreement with R2S, the Organization will receive funding for goods donated by individuals to R2S's resale stores. Per the Agreement, the Organization will receive funding from R2S for each pound of non-furniture items donated and a percentage of the revenue for furniture sales in the Organization's operating area. Donation revenue is recognized during the month that R2S receives and reports the donated goods from individuals for all non-furniture items. Donation revenue for furniture items is recognized during the month that R2S sells and reports the donated furniture. When the donation revenue is recorded, the Organization will record a receivable from R2S. Cash is received in the month subsequent to the recording of revenue.

**Concentration of Credit Risk**
Financial instruments which are potentially subject to risk consist primarily of cash and investments. Financial instruments potentially subjecting the Organization to concentrations of credit risk consist primarily of operating cash and investment balances at financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) insurance thresholds, cash held in money market accounts in excess of the amounts insured by the U.S. Treasury insurance for money market funds, and various debt and equity instruments in excess of Securities Investor Protection Corporation (SIPC) insurance limits. The Organization has not experienced any credit losses in such accounts in the past.

## Note 1 – Organization and Summary of Accounting Policies (continued)

### Income Taxes

The Organization is a nonprofit, publicly supported organization, as defined in Section 501(c)(3) of the Internal Revenue Code (Code) that is exempt from federal income taxes under Section 501(a) of the Code. Accordingly, no federal income taxes are recorded in the accompanying financial statements. Unrelated business income, if any, is insignificant and no tax provision has been made in the accompanying financial statements.

The Organization follows Financial Accounting Standards Board (FASB) Accounting Standards of Codification (ASC) No. 740-10, relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest and penalties, and disclosure requirements. The Organization does not have any entity level uncertain tax positions in connection with these financial statements. The Organization files a U.S. federal tax return.

### Functional Allocation of Expenses

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

### Advertising

The Organization expenses advertising costs as they are incurred. Total advertising costs charged to general and administrative expenses were approximately $149,948 and $182,395 for the years ended June 30, 2018 and 2017, respectively.

### Fair Value Measurements

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. In determining fair value, the Organization uses various methods including market, income, and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

**Level 1 –** Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

**Level 2 –** Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an active market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates, and similar data.

**Note 1 – Organization and Summary of Accounting Policies (continued)**

**Level 3 –** Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Organization's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls into its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

A description of the valuation techniques applied to the Organization's major categories of assets and liabilities measured at fair value on a recurring basis as follows:

*Cash and Money Market Accounts* – Time deposits held by a financial institution paying a stated rate of interest. To the extent that these investments are deposits of cash and may be liquidated at the option of the Organization, they are categorized in Level 1 of the fair value hierarchy.

*Equities and Mutual Funds* – Equities and mutual fund investments are valued based on quoted prices in active markets for identical assets or liabilities. They are categorized in Level 1 of the fair value hierarchy.

*Fixed Income Securities* – Fixed Income Securities consist of government and corporate debt securities that are valued based on quotations received from dealers who make markets in such securities or by independent pricing services. These pricing services generally utilize matrix pricing which considers yield or price of bonds of comparable quality, coupon, maturity, and type as well as dealer supplied prices.

**Use of Estimates**
Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these financial statements include those assumed in recording depreciation and amortization, values of donated assets or goods, and the functional allocation of expenses. It is at least reasonably possible that the significant estimates used will change within the next year. Actual results could vary from estimates.

**Note 1 – Organization and Summary of Accounting Policies (continued)**

**Reclassifications**
Certain reclassifications have been made to the prior year's financial statement to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net assets.

**Recent Pronouncements**
In February 2016, the FASB issued its new lease accounting guidance in Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). Under the new guidance, lessees will be required to recognize a lease liability and a right of use asset for all leases (with the exception of short-term leases) at the commencement date of the lease, and disclose key information about leasing arrangements. Accounting by lessors is largely unchanged. This ASU will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years and is to be applied on a modified retrospective basis. The Organization is currently assessing the potential impact of this ASU on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 improves the current net asset classification requirements, as well as the information presented in the financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance, and cash flows. Specifically, the following issues are addressed: (1) net asset classification, (2) donor restrictions and without donor restrictions, (3) information about liquidity and availability of resources, (4) information about expense and investment income, and (5) presentation of operating cash flows. ASU No. 2016-15 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization is currently assessing the potential impact of this ASU on its financial statements.

**Subsequent Events**
Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

In preparing the accompanying financial statements, the Organization has reviewed events that have occurred after June 30, 2018 through December 17, 2018, the date the financial statements were available for issuance. During this period, the Organization did not have any material subsequent events.

### Note 2 – Note Receivable

As discussed in Note 1, during November of 2017, the Organization entered into the Agreement with R2S for the sale of assets and inventories related to the resale operations owned and operated by the Organization. As a condition of the Agreement, R2S executed a note payable to the Organization for $1,500,000. The note bears interest at a rate of eight percent (8.0%) per annum, payable in monthly principal payments of $31,250 beginning on January 1, 2018 and maturing on December 1, 2021. The note is guaranteed by Matt Kloeber in his individual capacity and by Boisk, Inc. secured by a lien on all tangible and personal property used in the business as conducted by R2S or any Affiliate. As of June 30, 2018 the outstanding balance of the note was $1,312,500. The Organization determined that no estimated credit loss would be required as the note is secured by the assets transferred as part of the Agreement.

The remaining annual principal payments due under the note as of June 30, 2018, are as follows:

| Years Ending June 30, | Amount |
|---|---|
| 2019 | $ 375,000 |
| 2020 | 375,000 |
| 2021 | 375,000 |
| 2022 | 187,500 |
| | $ 1,312,500 |

### Note 3 – Property and Equipment

Property and equipment, not including those that were a part of discontinued operations (see Note 8), at June 30, 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|---|---|---|
| Land | $ 326,619 | $ 326,619 |
| Buildings and improvements | 5,147,692 | 5,169,528 |
| Furniture and equipment | 560,169 | 889,528 |
| Software | 158,292 | 162,535 |
| Vehicles | 53,289 | 53,884 |
| | 6,246,061 | 6,602,094 |
| Accumulated depreciation | (3,055,367) | (3,284,458) |
| | $ 3,190,694 | $ 3,317,636 |

Depreciation and amortization expense, not including those that were a part of discontinued operations (see Note 8), for the years ended 2018 and 2017 totaled $145,544 and $167,103, respectively.

### Note 4 – Fair Value Measurements

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as June 30, 2018.

| Investments | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and money market accounts | $ 201,690 | $ - | $ - | $ 201,690 |
| Equities | 3,075,715 | - | - | 3,075,715 |
| Mutual funds | 1,559,965 | - | - | 1,559,965 |
| Fixed income securities | 1,815,542 | 747,971 | - | 2,563,513 |
| | $ 6,652,912 | $ 747,971 | $ - | $ 7,400,883 |

### Note 5 – Temporarily Restricted

Temporarily restricted net assets at June 30, 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|---|---|---|
| Capital campaign | $ - | $ 200,000 |
| Pantry | - | 8,454 |
| Family assistance | 21,440 | 20,911 |
| Seasonal programs | 4,659 | 7,798 |
| Other direct support | 4,660 | 79,661 |
| | $ 30,759 | $ 316,824 |

### Note 6 – Commitments

**Lease Agreement**

The Organization leased a building under a noncancelable operating lease. The lease commenced on October 1, 2010 and expired December 31, 2017. The lease agreement included two consecutive optional terms for five years each, which were not executed. Total rent expense was $134,922 and $255,366 during the years ended June 30, 2018 and 2017, respectively.

**Other Leases**

The Organization, as lessee, has various noncancelable leases for equipment, all of which are classified as operating leases. Expense under these leases was approximately $39,782 and $61,615 for the years ended June 30, 2018 and 2017, respectively, and is included in the statements of activities primarily within general and administrative expenses. As part of the Agreement, several leases were assumed by R2S and, as a result, the Organization no longer has commitments related to those items. See Note 1 for additional details related to the Agreement.

**Note 6 – Commitments (continued)**

The remaining annual minimum lease payments under the operating leases existing as of June 30, 2018, are as follows:

| Years Ending June 30, | Amount |
|---|---|
| 2019 | $ 27,717 |
| 2020 | 22,444 |
| 2021 | 3,190 |
| Thereafter | - |
| | $ 53,351 |

**Note 7 – Notes Payable**

The Organization was obligated under a promissory note with a financial institution for the purchase of land and construction costs that was paid in full as part of the Agreement during the year. The note had an annual interest rate of Prime, but not less than 3.5%. The rate in effect at the time the note was paid was 4.25%. The note was secured by land and property included in the Agreement. The amount outstanding on this loan was $760,000 on June 30, 2017.

The Organization was also obligated under promissory notes with a financial institution for funds that were used for operations of the Organization that was paid in full as part of the Agreement during the year. The loans had an annual interest rate of Prime, but not less than 3.5%. The rate in effect at the time the notes were paid was 4.25%. The notes were secured by land and property included in the Agreement. The amount outstanding on this loan was $563,525 on June 30, 2017.

The Organization was also obligated under a car manufacturer loan for the purchase of vehicles that was assumed by R2S as part of the Agreement during the year. The loan had an annual interest rate of 4.99% and was secured by the vehicles purchased with the proceeds. As of June 30, 2017, the amount outstanding on this loan was $28,660.

Interest expense on the above notes was charged as follows:

| | 2018 | 2017 |
|---|---|---|
| Expenses | $ 9,900 | $ 11,094 |
| Discontinued operations | 23,134 | 37,363 |
| | $ 33,034 | $ 48,457 |

**Note 8 – Discontinued Operations**

As discussed in Note 1, during November of 2017, the Organization executed the Agreement with R2S for the sale of assets and inventories related to the resale operations owned and operated by the Organization. As a condition of the Agreement, R2S agreed to pay the Organization $10,350,000. The Organization received cash in the amount of $8,850,000 and issued a seller note for $1,500,000 (See Note 2). As discussed in Note 7, $1,389,603 of these proceeds were used to pay off promissory notes secured by the assets transferred in the Agreement. The remaining funds, net certain closing related expenses, were received by the Organization and placed in an investment account as discussed in Note 1.

In addition to $10,350,000, the Agreement outlined future payments of proceeds related to the collection donated items in the Organization's service area, as defined in the Agreement. The Organization recognizes revenues through this part of the Agreement as donated items are received by R2S.

The decision of the Organization to discontinue operations of the resale and donation centers by entering into the Agreement with R2S enables the Organization to maintain reliable and sustainable liquidity and revenues to support its program services.

The Organization is precluded from reentering resale operations, per the Agreement. The Organization recorded a gain on sale of assets and inventories related to resale, net of cost, of $2,672,412 during 2017.

A summary of the results of operations of the discontinued operations for the years ended June 30, 2018 and 2017 are as follows:

| 2018 | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| Revenue - resale merchandise | $ 2,211,164 | $ - | $ 2,211,164 |
| Expenses - resale operations | (2,139,135) | - | (2,139,135) |
| Gain of sale of assets and inventories | 3,172,254 | - | 3,172,254 |
| Expenses - R2S Transaction | (499,842) | - | (499,842) |
| Change in Net Assets | $ 2,744,441 | $ - | $ 2,744,441 |

| 2017 | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| Revenue - resale merchandise | $ 5,135,438 | $ - | $ 5,135,438 |
| Expenses - resale operations | (4,610,181) | - | (4,610,181) |
| Change in Net Assets | $ 525,257 | $ - | $ 525,257 |

**Note 8 – Discontinued Operations (continued)**

Property and equipment that was a part of discontinued operations at June 30, 2017 consisted of the following:

| | 2017 |
|---|---|
| Land | $ 769,181 |
| Buildings and improvements | 7,019,919 |
| Furniture and equipment | 740,156 |
| Software | - |
| Vehicles | 219,169 |
| | 8,748,425 |
| Accumulated depreciation | (2,550,770) |
| | $ 6,197,655 |

Depreciation and amortization expenses that were a part of discontinued operations for the years ended 2018 and 2017 totaled $133,206 and $303,851, respectively.

**Note 9 – Retirement Plan**

The Organization has adopted a retirement arrangement under Section 403(b) of the Internal Revenue Code of 1986, as amended. Under the plan, participating employees may contribute a portion of their compensation, pretax or after-tax, limited by an annual deferral limit prescribed by the IRC. The Organization contributes 3.0% of eligible employees' wages plus matches the employee contributions, up to 2.0% of wages. The Organization's contributions are subject to a vesting schedule which entitles the employee to a percentage of the contributions depending on the years of service. For the years ended June 30, 2018 and 2017, the Organization contributed to this retirement plan $78,638 and $96,937, respectively.

**Note 10 – Significant Cash Concentration**

The Organization maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant risk.

**Note 11 - Related-Party Transactions**

Total contributions made to the Organization from the Board of Directors and other related parties amounted to $32,905 and $140,284 as of June 30, 2018 and 2017, respectively. All contributions were in the form of cash donations by the related parties.