

**CHRISTIANS REACHING
OUT TO SOCIETY, INC.**

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2016
(with comparable totals for 2015)**

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5-6
Statement of Functional Expenses	7
NOTES TO FINANCIAL STATEMENTS	8-20
SUPPLEMENTARY INFORMATION	
Schedule of Program Services	21



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Christians Reaching Out to Society, Inc.
Lake Worth, Florida

We have audited the accompanying financial statements of Christians Reaching Out to Society, Inc. (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, cash flows and functional expenses for the year 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 audit. We conducted our audit 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 present fairly, in all material respects, the financial position of Christians Reaching Out to Society, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of program services on page 20, is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from Christians Reaching Out to Society, Inc.'s 2015 financial statements prepared by Tedamson & Perry and, in their report dated June 22, 2016, they expressed an unqualified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Holyfield & Thomas, LLC

West Palm Beach, Florida

June 21, 2017

CHRISTIANS REACHING OUT TO SOCIETY, INC.

STATEMENT OF FINANCIAL POSITION

*As of December 31, 2016**(with comparable totals for 2015)*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Totals</u>	<u>2015 Totals</u>
ASSETS				
Cash and cash equivalents	\$ 311,241	\$ 285,905	\$ 597,146	\$ 550,082
Accounts receivable	8,339	-	8,339	7,814
Grants receivable	-	-	-	11,099
Promises to give, current portion	105,249	158,750	263,999	355,085
Inventories	78,000	-	78,000	77,000
Prepaid expenses	14,014	-	14,014	16,854
Total current assets	<u>516,843</u>	<u>444,655</u>	<u>961,498</u>	<u>1,017,934</u>
Promises to give	-	50,000	50,000	-
Other assets	9,438	-	9,438	-
Investments	533,587	-	533,587	395,943
Split-interest agreement	-	61,204	61,204	61,204
Property and equipment, net	225,782	-	225,782	82,932
Total assets	<u>\$ 1,285,650</u>	<u>\$ 555,859</u>	<u>\$ 1,841,509</u>	<u>\$ 1,558,013</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued expenses	\$ 45,447	\$ -	\$ 45,447	\$ 18,349
Current portion of capital leases payable	15,473	-	15,473	8,371
Total current liabilities	<u>60,920</u>	<u>-</u>	<u>60,920</u>	<u>26,720</u>
Capital leases payable	39,134	-	39,134	9,272
Total liabilities	<u>100,054</u>	<u>-</u>	<u>100,054</u>	<u>35,992</u>
Net assets:				
Unrestricted				
Board designated	263,797	-	263,797	148,797
Undesignated	921,799	-	921,799	774,062
Total unrestricted	<u>1,185,596</u>	<u>-</u>	<u>1,185,596</u>	<u>922,859</u>
Temporarily restricted	<u>-</u>	<u>555,859</u>	<u>555,859</u>	<u>599,162</u>
Total net assets	<u>1,185,596</u>	<u>555,859</u>	<u>1,741,455</u>	<u>1,522,021</u>
Total liabilities and net assets	<u>\$ 1,285,650</u>	<u>\$ 555,859</u>	<u>\$ 1,841,509</u>	<u>\$ 1,558,013</u>

See accompanying notes to financial statements.

CHRISTIANS REACHING OUT TO SOCIETY, INC.

STATEMENT OF ACTIVITIES

*For the Year Ended December 31, 2016**(with comparable totals for 2015)*

	Unrestricted	Temporarily Restricted	2016 Totals	2015 Totals
Support and revenues:				
Congregation support	\$ 318,252	\$ 274,218	\$ 592,470	\$ 236,680
Foundation support	159,850	82,700	242,550	636,250
Government support	106,942	65,471	172,413	170,939
In-kind contributions	1,152,734	-	1,152,734	944,770
Other contributions	266,135	113,280	379,415	348,842
United Way allocation	-	68,000	68,000	53,650
Camp program fees	25,531	-	25,531	9,547
Miscellaneous	16,546	-	16,546	3,457
Special events	87,424	-	87,424	144,835
Investment and interest income, net	34,454	-	34,454	(27,233)
Change in value of split-interest agreement	-	-	-	(1,208)
Total support and revenues	2,167,868	603,669	2,771,537	2,520,529
Net assets released from restrictions	646,972	(646,972)	-	-
	2,814,840	(43,303)	2,771,537	2,520,529
Expenses:				
Program services	2,348,687	-	2,348,687	2,109,369
Supporting services:				
Management and general	82,593	-	82,593	88,762
Fundraising	120,823	-	120,823	88,927
Total expenses	2,552,103	-	2,552,103	2,287,058
Gain on disposal of property and equipment	-	-	-	58,395
Change in net assets	262,737	(43,303)	219,434	291,866
Net assets, beginning of year	922,859	599,162	1,522,021	1,230,155
Net assets, end of year	\$ 1,185,596	\$ 555,859	\$ 1,741,455	\$ 1,522,021

See accompanying notes to financial statements.

CHRISTIANS REACHING OUT TO SOCIETY, INC.

STATEMENT OF CASH FLOWS

*For the Year Ended December 31, 2016**(with comparable totals for 2015)*

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from:		
Contributions and support	\$ 1,477,197	\$ 1,290,431
Program revenue	24,406	9,547
Special events	88,254	144,835
Investment income, net	8,736	14,064
Cash paid to vendors and employees	(1,314,687)	(1,309,255)
Other income	16,546	3,457
Net cash provided by operating activities	<u>300,452</u>	<u>153,079</u>
Cash flows from investing activities:		
Proceeds from sale of assets	-	80,000
Purchase of investments in endowments, net	(111,926)	(805)
Purchase of property and equipment	(133,316)	-
Net cash provided by (used in) investing activities	<u>(245,242)</u>	<u>79,195</u>
Cash flows from financing activities:		
Principal payments on obligations under capital lease	(8,146)	(6,755)
Net cash used in financing activities	<u>(8,146)</u>	<u>(6,755)</u>
Net change in cash	47,064	225,519
Cash and cash equivalents, beginning of year	<u>550,082</u>	<u>324,563</u>
Cash and cash equivalents, end of year	<u>\$ 597,146</u>	<u>\$ 550,082</u>

See accompanying notes to financial statements.

CHRISTIANS REACHING OUT TO SOCIETY, INC.

STATEMENT OF CASH FLOWS

*For the Year Ended December 31, 2016**(with comparable totals for 2015)*

	<u>2016</u>	<u>2015</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 219,434	\$ 291,866
Adjustments to reconcile change in net cash to net cash provided by operating activities:		
Depreciation	35,576	35,152
Realized and unrealized (gain) loss in investments	(25,718)	41,297
Gain on disposal of property and equipment	-	(58,395)
Change in value of split-interest agreement	-	1,208
In-kind contribution of property and equipment	-	(8,820)
In-kind facility usage from promises to give	29,606	31,548
(Increase) decrease in certain assets:		
Accounts receivable	(525)	8,460
Grants receivable	11,099	(11,099)
Promises to give	11,480	(153,291)
Inventory	(1,000)	(14,000)
Prepaid expenses	2,840	(7,945)
Other assets	(9,438)	-
Increase (decrease) in certain liabilities:		
Accounts payable and accrued expenses	27,098	(2,902)
Net cash provided by operating activities	<u>\$ 300,452</u>	<u>\$ 153,079</u>
Supplemental cash flow information:		
Noncash investing and financing transaction:		
Cost of equipment under capital lease obligation	<u>\$ 45,110</u>	<u>\$ -</u>

See accompanying notes to financial statements.

CHRISTIANS REACHING OUT TO SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

*For the Year Ended December 31, 2016**(with comparable totals for 2015)*

	Program Services	Supporting Activities		2016 Totals	2015 Totals
		Management and General	Fundraising		
Salaries	\$ 571,732	\$ 41,629	\$ 60,080	\$ 673,441	\$ 657,515
Payroll taxes	38,004	3,056	4,285	45,345	45,428
Health benefits	51,678	4,750	7,889	64,317	63,913
Other employee benefits	24,038	1,728	2,421	28,187	27,046
Total salaries and related benefits	685,452	51,163	74,675	811,290	793,902
Building rent expense	26,066	1,447	814	28,327	-
Casual labor	21,583	-	-	21,583	22,484
Computer maintenance	1,950	91	133	2,174	3,206
Conferences and meetings	3,770	826	1,097	5,693	7,385
Depreciation expense	33,728	720	1,128	35,576	35,152
Insurance	7,132	1,338	832	9,302	8,415
Interest expense	1,510	161	216	1,887	2,377
Office expense	9,474	461	1,988	11,923	12,135
Other expense	8,957	2,559	9,538	21,054	13,150
Photocopying and printing	1,021	4,503	9,773	15,297	11,405
Postage and delivery	741	2,332	4,973	8,046	7,604
Professional fees	12,500	5,108	-	17,608	21,615
Program expenses:					
Food	139,533	-	-	139,533	137,207
Other	124,431	-	-	124,431	147,094
Relocation and modeling	-	4,004	-	4,004	-
Repairs and maintenance	18,807	72	97	18,976	8,853
Special events	-	-	7,257	7,257	4,223
Telephone, fax, and internet	18,216	759	1,017	19,992	16,864
Travel expenses	14,224	992	1,235	16,451	15,703
Utilities	42,432	1,550	1,967	45,949	58,130
Volunteer expense	2,236	1,175	-	3,411	4,470
Total expenses before In-kind expenses	1,173,763	79,261	116,740	1,369,764	1,331,374
In-kind expenses:					
Facilities	124,560	3,332	4,083	131,975	172,664
Food	1,031,561	-	-	1,031,561	763,145
Other	18,803	-	-	18,803	19,875
Total expenses	\$ 2,348,687	\$ 82,593	\$ 120,823	\$ 2,552,103	\$ 2,287,058

See accompanying notes to financial statements.

For the Year Ended December 31, 2016

1. Business and Summary of Significant Accounting Policies*Organization*

The Christians Reaching Out to Society, Inc. ("CROS Ministries") is a Florida nonprofit entity that was incorporated in 1978 and has an auxiliary affiliation with the United Methodist Church. CROS Ministries serves the hungry in Palm Beach and Martin Counties through community collaborations. CROS Ministries is supported primarily through donor contributions, grants and governmental financial assistance. Some of the programs offered by CROS Ministries include:

CROS Camp

CROS Camp is a nine-week summer day camp program for children, from kindergarten through 8th grade, living in Title I zip codes (neighborhoods receiving federal funding for schools where at least 40% of the students are from families with low incomes) in Boynton Beach and Lake Worth. The camp program promotes school readiness, ensuring proper nutrition, and guaranteeing a safe nurturing place for campers to call "home" during the day. CROS Campers receive lunch, and snacks daily from Palm Beach County's Summer BreakSpot program and breakfast as needed. Camp activities include: laying the foundation of Christian morals and values, on site or off-site field trips, academics, music, sports, arts and crafts.

The Caring Kitchen

The Caring Kitchen is a hot meal program located in Delray Beach, FL. The program serves the homeless, individuals and families with low-incomes, people with disabilities, and senior citizens. Volunteers and staff provide breakfast and hot lunches five days a week, evening hot meals four nights a week, meals to the home-bound three days a week, and bagged lunches on the weekend. In addition, The Caring Kitchen offers numerous services in an effort to move people to self-sufficiency.

Community Food Pantries

CROS Ministries operates seven community food pantries, located in low-income communities in Palm Beach and Martin Counties, which distribute food to families and individuals. Two of the food pantries are open five days a week. The others are open one to three days a week.

Under the umbrella of the food pantry program is *Nutrition in a Knapsack*. The program distributes weekend backpacks filled with food to children from Title I Schools (40% of the total student enrollment must come from families with low incomes) during the school year.

Gleaning and Food Recovery

Gleaning revives the biblical initiative that involves volunteers picking produce from farmers' fields that has been left after commercial harvesting methods. The produce gleaned is distributed through a local food bank to local agencies that work to feed the hungry in the community. Gleaning occurs from November to July.

For the Year Ended December 31, 2016

1. Business and Summary of Significant Accounting Policies, continued

Basis of Accounting

The accompanying financial statements of CROS Ministries have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Financial Statement Presentation

CROS Ministries has adopted FASB Accounting Standard Codification (FASB ASC) 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*. Under the standard, CROS Ministries is required to report information regarding its activities according to three classifications of net assets: unrestricted, temporarily restricted, and permanently restricted.

The following paragraphs describe the three classes of net assets:

Unrestricted Net Assets: this classification includes those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation. Changes in net assets arising from exchange transaction (except income and gains on assets that are restricted by donors or by law) are included in the unrestricted class.

Temporarily Restricted Net Assets: this classification includes those net assets whose use by CROS Ministries has been limited by donors to either later periods of time, or after specified dates, or for a specified purpose.

Permanently Restricted Net Assets: this classification includes those net assets that must be maintained by CROS Ministries in perpetuity. Permanently restricted net assets increase when CROS Ministries receives contributions for which donor-imposed restrictions limiting CROS Ministries' use of an asset or its economic benefits neither expire with the passage of time nor can be removed by CROS Ministries meeting certain requirements. CROS Ministries had no permanently restricted net assets as of December 31, 2016.

Estimates

Management uses estimates and assumptions in preparing financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Fair Value of Financial Instruments

CROS Ministries follows FASB ASC 820-10, *Fair Value Measurements and Disclosures*, which provides a common definition of fair value, establishes a framework to measure fair value within accounting principles generally accepted in the United States of America, and expands the disclosures about fair value measurements. The standard does not create any new fair value measurements. Instead, it applies under existing accounting pronouncements that require or permit fair value measurements.

For the Year Ended December 31, 2016

1. Business and Summary of Significant Accounting Policies, continued*Fair Value of Financial Instruments, continued*

For assets and liabilities measured at fair value on a recurring basis, entities should disclose information that allows financial statement users to assess (1) the inputs used to develop such measurements, such as Level 1 (i.e., quoted price in an active market for an identical asset or liability), Level 2 (i.e., quoted price for similar assets or liabilities in active markets), or Level 3 (i.e., unobservable inputs); and (2) the effect on changes in net assets of recurring measurements that use significant unobservable (Level 3) inputs.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with CROS Ministries' financial statements for the year ended December 31, 2015, from which the summarized information was derived. Certain 2015 amounts may have been reclassified to conform to 2016 classifications. Such reclassifications had no effect on the change in net assets as previously reported.

Cash and Cash Equivalents

For purposes of statement of cash flows, CROS Ministries considers cash in banks and money market funds, other than amounts in its endowment account, to be cash and cash equivalents. Cash accounts at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. From time to time balances of these cash accounts exceed federally insured limits. CROS Ministries has not experienced any loss on such accounts and management believes CROS Ministries is not exposed to any significant credit risk arising from such balances. As of December 31, 2016, there was approximately \$336,000 in excess of the FDIC limit.

Investments

Pursuant to FASB ASC 958-320, *Investments - Debt and Equity Securities*, CROS Ministries' investments are stated at market value, based on quoted bid prices on a national stock exchange. Investments are principally held in asset growth funds and a cash management fund for the benefit of CROS Ministries. Securities transactions are recorded on a trade date basis. Interest income is recorded on the accrual basis and dividend income is recorded on the ex-dividend date.

Accounts Receivable

Accounts receivable consist of amounts owed to CROS Ministries by various organizations and individuals. Substantially all of the recorded accounts receivable are deemed collectible by management and no allowance is required.

For the Year Ended December 31, 2016

1. **Business and Summary of Significant Accounting Policies, continued**

Grants Receivable

Grants receivable are recorded when services have been rendered and the granting authority has been billed. If events or changes in circumstances indicate that specific receivable balances may be disallowed by the granting authority, the receivable balances are written-off as an operating expense.

Unconditional promises to give are recognized as support in the period received, at the estimated amount to be ultimately realized.

Inventories

Inventories consist of food received as in-kind contributions or purchased that is used in the Community Food Pantries and The Caring Kitchen programs. Inventories are stated at the estimated lower of cost or market or, if donated, at an estimated fair value at the date of the donation.

Split-interest Agreements

A split-interest agreement is an agreement between a donor and a nonprofit organization in which the beneficiaries "split" the income and/or principal of the gift. In this case, CROS Ministries' split-interest agreement includes one charitable remainder trust where the income beneficiary receives the income from the trust and then upon the income beneficiary's death CROS Ministries will receive a portion of the principal that remains. Split-interest agreements are unconditional promises by the donor to provide future funding to CROS Ministries. Recognized when the promise is received, these trusts are recorded at fair value.

The fair value of the charitable remainder trusts is computed as the present value of the future distribution projected to be received upon termination of the trust, discounted at a rate that equals the annual payout rate and the assumed growth rate (i.e. 3.25%).

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of the donation. Donations of property and equipment are recorded as support unless the donor has restricted the donated asset to a specific purpose. Absent donor stipulations regarding how long those donated assets must be maintained, CROS Ministries reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Property and equipment are depreciated using the straight-line method over the estimated useful life of the assets, ranging from 5 to 10 years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

For the Year Ended December 31, 2016

1. *Business and Summary of Significant Accounting Policies, continued*

Support and Revenues

In accordance with FASB ASC 958-605, *Not-for-Profit Entities, Revenue Recognition*, contributions received, including unconditional promises, are recognized as revenues when the donor's commitment is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. However, if the restriction is met in the same period as the restricted income is received, CROS Ministries classifies such income as unrestricted support. Program service fees are recognized as revenue in the period in which the related services commence.

In-Kind Contributions

CROS Ministries reports the contributions of noncash assets, food, materials, and transportation services at their estimated fair value at date of donation. In-kind food, materials and transportation services was \$1,050,364 for the year ended December 31, 2016.

The donated use of facilities is recorded as contributions at their estimated fair market rental value. In-kind facilities use was \$131,975 for the year ended December 31, 2016.

In addition, many volunteers provide services throughout the year that are not recognized as contributions in the financial statements, because the recognition criteria under FASB ASC 958-605, *Not-for-Profit Entities, Revenue Recognition*, were not met. It is impracticable to determine the fair market value of all donated services by the volunteers of CROS Ministries beyond those required to be recognized as income, however CROS Ministries received more than 65,230 volunteer hours in support of its program services and special events.

Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the Statement of Functional Expenses. Costs that are not directly associated with providing specific services are allocated based upon the relative time spent by employees of CROS Ministries providing those services.

Income Taxes

CROS Ministries is a nonprofit corporation that is exempt from income taxes under the Internal Revenue Code Section 501(c)(3). It is exempt from filing nonprofit annual information returns with the Internal Revenue Service based upon its status as an integrated auxiliary of the United Methodist Church.

For the Year Ended December 31, 2016

2. Fair Value Measurements

FASB ASC 820-10 establishes a framework for measuring fair value that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

- Level 1* – Inputs to the valuation methodology are unadjusted quoted prices for identical assets and liabilities in active markets that CROS Ministries has the ability to access at the measurement date.
- Level 2* – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the assets or liabilities; 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 inputs reflect CROS Ministries' own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

The fair value measurement of an asset or liability 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.

Fair Value of Financial Instruments: The following methods and assumptions were used by CROS Ministries in estimating fair value of financial instruments that are not disclosed under FASB ASC 820-10.

Cash and equivalents – The carrying amount reported approximates fair value.

Accounts and grants receivable – The carrying amount approximates fair value due to the short term of these receivables.

Promises to give – The carrying amount approximates fair value due to the relatively short term of these promises.

Accounts payable and accrued expenses – The carrying amount reported approximates fair value due to the short term duration of the instruments.

Capital leases – The carrying amount reported approximates fair value as the stated interest rates approximate market rates.

For the Year Ended December 31, 2016**2. Fair Value Measurements, continued**

Items measured at Fair Value on a Recurring Basis: The following methods and assumptions were used by CROS Ministries in estimating the fair value of financial instruments that are measured at fair value on a recurring basis under FASB ASC 820-10:

Investments:

- *Cash and accrued interest receivable* – Valued at the reported brokerage amounts.
- *Asset growth funds* – Valued at the quoted market price by the custodians as of the close of business at year end December 31, 2016.

Split-interest agreement – CROS Ministries values this asset using life expectancy of the income beneficiary and a discount rate that approximates current market rates.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while CROS Ministries believes its valuation methodologies 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. There was no change in the methodology used for the fiscal year ended December 31, 2016.

The characterization of an investment or asset within the fair value hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the issue's perceived level of risk for that investment or asset.

The following tables set forth by level within the fair value hierarchy, the fair value of CROS Ministries' financial assets measured at fair value on a recurring basis at December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ -	\$ 533,587	\$ -	\$ 533,587
Split-interest agreement	<u>-</u>	<u>-</u>	<u>61,204</u>	<u>61,204</u>
Total assets at fair value	<u>\$ -</u>	<u>\$ 533,587</u>	<u>\$ 61,204</u>	<u>\$ 594,791</u>

The net realized and unrealized gains and losses for Level 3 assets for the year ended December 31, 2016 are included in CROS Ministries' change in net assets as change in value of split-interest agreement. There were no changes in the fair value of CROS Ministries' Level 3 assets during the year ended December 31, 2016.

FASB ASC 820-10 requires disclosure of quantitative information about the unobservable inputs used to measure Level 3 assets and liabilities. The following table provides information about the split-interest agreements:

	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>
Split-interest agreement	\$ 61,204	Discounted cash flows	Discount rate and life expectancy of income beneficiary

For the Year Ended December 31, 2016

3. Promises to Give

Promises to give are recorded for unconditional promises to fund CROS Ministries' various programs. Promises to give, as of December 31, 2016, are collectible through June 2018. Management considers these promises to give to be fully collectible and, therefore, no allowance for doubtful accounts was considered necessary. No discount is recorded for promises to give due in more than one year as the amount of such discount is considered immaterial.

As of December 31, 2016, the amounts to be received in connection with these promises are as follows:

In one year	\$ 263,999
In one to five years	<u>50,000</u>
Total	<u>\$ 313,999</u>

4. Other assets

Other assets as of December 31, 2016 consisted of rent and security deposits.

5. Investments

The fair value of CROS Ministries' investments as of December 31, 2016 is summarized as follows:

	<u>Fair Value</u>	<u>Historical Cost</u>	<u>Unrealized Gain (Loss)</u>
Cash management fund	\$ 48,362	\$ 48,362	\$ -
Asset growth funds	<u>485,225</u>	<u>490,526</u>	<u>(5,301)</u>
Total	<u>\$ 533,587</u>	<u>\$ 538,888</u>	<u>\$ (5,301)</u>

Investments consist of \$269,790 unrestricted investments and \$263,797 board designated investments in endowments. Investment return, as of December 31, 2016, is summarized as follows:

Investment earnings	\$ 11,823
Net realized and unrealized gains and losses	25,718
Investment fees paid	<u>(2,568)</u>
Total	<u>\$ 34,973</u>

For the Year Ended December 31, 2016

6. Endowment Funds

As of December 31, 2016, the Board of Directors had designated \$263,797 of unrestricted net assets as a general endowment fund to support the mission of CROS Ministries. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets. The Board of Directors by a three-quarter (3/4) vote may withdraw such designated funds, which they did during 2014 in the amount of \$115,000. During 2016, the Board of Directors voted to replenish the \$115,000 that had been previously withdrawn.

FASB ASC 958 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) to improve disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to FUPMIFA.

In accordance with FUPMIFA, CROS Ministries considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Changes in the board designated endowment net assets for the year ended December 31, 2016, consist of the following:

Endowment net assets, beginning of year	\$ 148,797
Investment returns:	
Investment income	4,170
Net appreciation	<u>13,120</u>
Total investment returns	17,290
Contributions	115,000
Appropriation of endowment assets for expenditure	<u>(17,290)</u>
Endowment net assets, end of year	<u>\$ 263,797</u>

Spending Policy

CROS Ministries has a spending policy of appropriating for distribution quarterly the investment earnings less the investment expenses incurred, when available for distribution. The Board's intention is to maintain the principal amount as a designated endowment. In establishing this policy, CROS Ministries considered the long-term expected investment return on its endowment. Accordingly, over the long-term, CROS Ministries expects the current spending policy to allow its general endowment fund to maintain the principal amount of endowment.

For the Year Ended December 31, 2016

6. Endowment Funds, continued*Investment Objective and Risk Parameters*

The primary objective of the endowment investment policy is to maximize total return consistent with an acceptable level of risk.

Strategies for Achieving Investment Objectives

Endowment assets are in an asset growth fund that is primarily invested in domestic and international equity securities that targets long-term growth, with some protection from income to stabilize the portfolio in the event of an equity downturn and is intended to result in a consistent rate of return that has sufficient liquidity to make distributions, when appropriate. The Florida United Methodist Foundation manages the investments of the endowment fund.

7. Split-interest Agreement

CROS Ministries is the beneficiary of a donor created irrevocable charitable remainder trust, the assets of which are not in the possession of CROS Ministries. The trust provides for payments of a fixed percentage of trust assets to beneficiaries designated by the donor. Upon the death of the designated beneficiaries, CROS Ministries is to receive a percentage of the assets remaining in the trust. CROS Ministries has legally enforceable rights and claims to a percentage of the remainder interest. The remainder interest is recorded at the estimated fair value of the distributions that CROS Ministries expects to receive upon termination of the trust. Fair value measurements were used to value the remainder interest, in accordance with FASB ASC 958, *Not-for-Profit Entities*, as the trust assets are held by an independent trustee.

This split-interest agreement is classified as temporarily restricted until such time as the remainder interest is received. Upon receipt, the assets received will be transferred to the unrestricted category. The remainder interests had no change in fair value for the year ended December 31, 2016. The valuation of split-interest agreement requires the use of significant estimates by management. It is reasonably possible that these estimates will change in the near term due to one or more confirming events.

The purpose, amounts and discounts related to this agreement as of December 31, 2016, are as follows:

Temporarily restricted – time restriction	\$ 90,068
Discount to net present value of split-interest agreement	<u>(28,864)</u>
Total split-interest agreement	<u>\$ 61,204</u>

For the Year Ended December 31, 2016

8. Property and Equipment

Property and equipment as of December 31, 2016 consisted of the following:

Furniture and equipment	\$ 84,252
Equipment under capital lease	80,469
Software	8,820
Vehicles	126,090
Leasehold improvements	<u>92,388</u>
	392,019
Less accumulated depreciation	<u>166,237</u>
Total property and equipment	<u><u>\$ 225,782</u></u>

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of December 31, 2016, consist of vendor payments due for general expenses and accrued salaries.

10. Restricted Net Assets

Unexpended temporarily restricted net assets as of December 31, 2016 were restricted as follows:

Use restriction:	
Caring Kitchen program	\$ 178,884
Food Pantry	136,051
Nutrition in a Knapsack	77,355
Gleaning program	91,968
Summer Camp program	8,879
Various other program costs	<u>1,518</u>
	494,655
Time restriction:	
Split-interest agreement	<u>61,204</u>
Total restricted net assets	<u><u>\$ 555,859</u></u>

11. Capital Leases

CROS Ministries leases certain equipment under various capital lease agreements requiring monthly payments ranging from \$761 to \$901, and maturing at various dates through December 2022. The assets and liabilities under the capital lease were recorded at the lower of the present value of minimum lease payments or the fair value of the assets. The assets are amortized over the lower of their lease terms or their estimated useful lives. Amortization of equipment under capital leases is included in depreciation expense in the accompanying financial statements. Depreciation of assets under capital leases charged to expense during the year ended December 31, 2016 was \$7,072.

For the Year Ended December 31, 2016**11. Capital Leases, continued**

Minimum future lease payments under capital leases as of December 31, 2016 for each of the next five years and in the aggregate are:

Year Ended December 31,	
2017	\$ 19,944
2018	13,095
2019	10,812
2020	10,812
2021	10,812
Thereafter	<u>1,802</u>
	67,277
Less amount representing interest	<u>12,670</u>
Present value of future minimum payments	54,607
Less current portion	<u>15,473</u>
Long-term portion	<u>\$ 39,134</u>

12. Operating Leases

CROS Ministries leases its office and warehouse space in Lake Worth, Florida, under a non-cancelable lease arrangement that extends through June 2021.

The future minimum lease payments are as follows:

Year Ended December 31,	
2017	\$ 53,663
2018	55,541
2019	57,485
2020	59,497
2021	<u>30,260</u>
Total	<u>\$ 256,446</u>

For the Year Ended December 31, 2016

13. Retirement Benefits

CROS Ministries has a defined contribution pension plan (Plan) allowed under Section 403(b) of the Internal Revenue Code that covers all full-time employees who are at least eighteen years old. Under this plan, CROS Ministries contributes 3% of the participant's compensation, after one year of service and if the participant is contributing a minimum 3%. Total retirement expense for the year ended December 31, 2016, was approximately \$13,000.

In addition to the employee retirement plan, CROS Ministries contributes up to 12% of clergy salaries to the United Methodist Church benefit plan to which the contracted clergy is associated. For the year ended December 31, 2016, CROS Ministries on behalf of its clergy incurred benefit expense of approximately \$8,000.

14. Subsequent Events

Management has evaluated subsequent events through June 21, 2017, the date on which the financial statements were available to be issued, and determined there were no further disclosures required to be presented in these financial statements.

SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2016

	CROS Camp	The Caring Kitchen	Community Food Pantries	Gleaning and Food Recovery	Other	Total Program Services
Salaries	\$ 90,511	\$ 173,872	\$ 217,299	\$ 76,607	\$ 13,443	\$ 571,732
Payroll taxes	6,499	11,741	13,679	5,092	993	38,004
Health benefits	7,933	16,658	20,414	5,732	941	51,678
Other employee benefits	3,019	7,317	9,308	3,843	551	24,038
Total salaries and related benefits	107,962	209,588	260,700	91,274	15,928	685,452
Building rent expense	11,446	710	13,066	729	115	26,066
Casual labor	21,233	350	-	-	-	21,583
Computer maintenance	338	373	951	260	28	1,950
Conferences and meetings	713	780	1,321	787	169	3,770
Depreciation expense	1,710	7,522	10,754	13,518	224	33,728
Insurance	1,340	1,532	3,011	975	274	7,132
Interest expense	252	238	693	290	37	1,510
Office expense	1,441	2,618	4,148	1,160	107	9,474
Other expense	2,543	1,674	3,564	1,074	102	8,957
Photocopying and printing	356	315	290	60	-	1,021
Postage and delivery	244	39	56	402	-	741
Professional fees	500	2,000	3,000	7,000	-	12,500
Program expenses:						
Food	3,506	3,952	132,075	-	-	139,533
Other	28,912	64,547	26,175	4,797	-	124,431
Repairs and maintenance	113	12,123	5,920	634	17	18,807
Telephone, fax, and internet	1,890	5,848	8,318	1,984	176	18,216
Travel expenses	2,608	1,589	7,271	2,553	203	14,224
Utilities	1,663	29,652	8,678	2,140	299	42,432
Volunteer expense	22	613	489	1,112	-	2,236
Total expenses before In-kind expenses	188,792	346,063	490,480	130,749	17,679	1,173,763
In-kind expenses:						
Facilities	5,564	40,072	73,939	4,362	623	124,560
Food	687	353,631	668,991	-	8,252	1,031,561
Other	1,810	16,993	-	-	-	18,803
Total expenses	\$ 196,853	\$ 756,759	\$1,233,410	\$ 135,111	\$ 26,554	\$2,348,687

See independent auditor's report.