

CARITAS OF WACO

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014**

WITH INDEPENDENT AUDITORS' REPORT

CARITAS OF WACO

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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, 2015 and 2014, 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 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.

Basis for Qualified Opinion on 2014 Financial Statements

We were unable to test physical inventory or obtain supporting documentation regarding non-food inventory within the thrift stores. This amount totals \$95,520 in the accompanying statement of financial position as of December 31, 2014. Consequently, we were also unable to obtain sufficient evidence surrounding the amounts stated in net assets, as well as in kind donations of food revenue and related expenses in the accompany statements of activities for the years ended December 31, 2014. Therefore we were unable to determine whether any adjustments to those stated items were necessary.

Qualified Opinion on 2014 Financial Statements

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above presented fairly in all material respects, the financial position of Caritas of Waco as of December 31, 2014, 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.

Opinion

In our opinion, the statement of financial position of Caritas of Waco as of December 31, 2015 the statement of activities for the year ended December 31, 2015, and the statements of cash flows for the year ended December 31, 2015, present fairly, in all material respects, the financial position of Caritas of Waco as of December 31, 2015, the changes in its net assets for the year ended December 31, 2015, and its cash flows for the years ended December 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

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

Waco, Texas
January 3, 2017

FINANCIAL STATEMENTS

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CARITAS OF WACO
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Current assets:		
Cash	\$ 236,857	\$ 350,589
Pledges receivable, current portion	1,200	6,830
Food inventory	12,686	278,223
Nonfood inventory	84,220	95,520
Total current assets	334,963	731,162
Long-term assets:		
Pledges receivable, non-current portion	6,197	9,431
Investment in securities	635,706	537,427
Beneficial interest in charitable remainder trust	135,333	150,632
Beneficial interest in assets held by Waco Foundation	1,407,895	1,443,983
Property and equipment, net of accumulated depreciation	2,446,226	2,332,644
Total long-term assets	4,631,357	4,474,117
Total assets	\$ 4,966,320	\$ 5,205,279
LIABILITIES		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 2,878	\$ 9,609
Accrued vacation	20,012	9,820
Total current liabilities	22,890	19,429
NET ASSETS		
Unrestricted net assets:		
Board designated for endowment	1,407,895	1,443,983
Undesignated	3,553,027	3,739,166
Total unrestricted net assets	4,960,922	5,183,149
Temporarily restricted net assets	(17,492)	2,701
Total net assets	4,943,430	5,185,850
Total liabilities and net assets	\$ 4,966,320	\$ 5,205,279

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, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Revenues and gains				
In-kind donations of food and nonfood products	\$ 13,874,765	\$ -	\$ -	\$ 13,874,765
Contributions	459,996	-	-	459,996
Bequest	480,000	-	-	480,000
Thrift store sales	328,540	-	-	328,540
Program grants	164,607	112,914	-	277,521
Shared maintenance fees	272,185	-	-	272,185
Special events, net expenses of \$18,694	82,559	-	-	82,559
Investment income	11,656	-	-	11,656
Realized loss on sale of assets	(2,376)	-	-	(2,376)
Unrealized gain (loss) on investments	7,886	-	-	7,886
Change in value of charitable remainder trust	(15,062)	-	-	(15,062)
Change in value of assets held by Waco Foundation	(36,088)	-	-	(36,088)
Released from temporary restriction	<u>133,107</u>	<u>(133,107)</u>	<u>-</u>	<u>-</u>
Total revenue	15,761,775	(20,193)	-	15,741,582
Expenses				
Program services:				
In-kind donations	14,151,602	-	-	14,151,602
Emergency assistance	387,621	-	-	387,621
Household products distribution	248,850	-	-	248,850
Thrift stores	351,305	-	-	351,305
Outreach	117,526	-	-	117,526
Supporting services:				
Management and general	665,050	-	-	665,050
Fundraising	<u>62,048</u>	<u>-</u>	<u>-</u>	<u>62,048</u>
Total Expenses	15,984,002	-	-	15,984,002
Change in net assets	(222,227)	(20,193)	-	(242,420)
Net assets at beginning of the year	<u>5,183,149</u>	<u>2,701</u>	<u>-</u>	<u>5,185,850</u>
Net assets at the end of the year	<u>\$ 4,960,922</u>	<u>\$ (17,492)</u>	<u>\$ -</u>	<u>\$ 4,943,430</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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total
Revenues and gains:				
In-kind donations of food and nonfood products	\$ 14,052,705	\$ -	\$ -	\$ 14,052,705
Contributions	543,305	-	-	543,305
Bequest	-	-	-	-
Thrift store sales	299,554	-	-	299,554
Program grants	168,362	167,047	-	335,409
Shared maintenance fees	286,984	-	-	286,984
Special events, net expenses of \$17,891	84,868	-	-	84,868
Investment income	10,332	-	-	10,332
Unrealized gain (loss) on investments	1,554	-	-	1,554
Change in value of assets held by Waco Foundation	24,490	-	-	24,490
Released from temporary restriction	207,940	(207,940)	-	-
Total revenue	15,680,094	(40,893)	-	15,639,201
Expenses				
Program services:				
In-kind donations	13,794,943	-	-	13,794,943
Emergency assistance	433,734	-	-	433,734
Household products distribution	231,660	-	-	231,660
Thrift stores	247,911	-	-	247,911
Outreach	100,647	-	-	100,647
Supporting services:				
Management and general	595,050	-	-	595,050
Fundraising	30,094	-	-	30,094
Total Expenses	15,434,039	-	-	15,434,039
Change in net assets	246,055	(40,893)	-	205,162
Net assets at beginning of the year	4,937,094	43,594	-	4,980,688
Net assets at the end of the year	\$ 5,183,149	\$ 2,701	\$ -	\$ 5,185,850

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

CARITAS OF WACO

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services				
	In-kind Donations	Emergency Assistance	Household Products Distribution	Thrift Stores	Outreach
In-kind nonfood distributed	\$ 10,082,501	\$ -	\$ -	\$ -	\$ -
In-kind food distributed	4,069,101	-	-	-	-
Salaries	-	207,101	170,116	227,457	91,881
Food purchases	-	117,375	-	-	-
Food for families	-	-	-	-	-
Assistance to individuals	-	32,218	-	-	16,035
Utilities	-	-	-	17,098	-
Depreciation	-	-	-	-	-
Payroll taxes	-	18,128	14,878	19,134	7,839
Insurance	-	-	-	-	-
Repairs and maintenance	-	151	8,992	4,851	-
Ladies of Charity	-	-	-	845	-
Truck	-	-	31,552	-	-
Professional fees	-	-	-	-	-
Building expense	-	-	-	2,869	-
Rent	-	-	-	26,000	-
Leases	-	-	-	20,571	-
Supplies	-	740	5,241	8,502	1,025
Advertising	-	-	-	-	-
Printing and postage	-	-	-	-	581
Telephone	-	-	2,726	4,667	-
Miscellaneous and other	-	11,908	5,107	7,086	165
Waste disposal	-	-	10,238	5,509	-
Bank fees	-	-	-	6,716	-
Total expenses	\$ <u>14,151,602</u>	\$ <u>387,621</u>	\$ <u>248,850</u>	\$ <u>351,305</u>	\$ <u>117,526</u>

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

Supporting Services

<u>Management and General</u>	<u>Fundraising</u>	<u>2015 Total</u>
\$ -	\$ -	\$ 10,082,501
-	-	4,069,101
243,627	56,668	996,850
-	-	117,375
42,396	-	42,396
14,554	-	62,807
21,357	-	38,455
121,730	-	121,730
19,721	4,533	84,233
72,243	-	72,243
20,985	-	34,979
-	-	845
-	-	31,552
20,895	-	20,895
772	-	3,641
-	-	26,000
-	-	20,571
25,791	192	41,491
-	-	-
17,432	-	18,013
7,631	-	15,024
30,415	655	55,336
437	-	16,184
5,064	-	11,780
\$ 665,050	\$ 62,048	\$ 15,984,002

CARITAS OF WACO

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services				
	In-kind Donations	Emergency Assistance	Household Products Distribution	Thrift Stores	Outreach
In-kind nonfood distributed	\$ 11,543,729	\$ -	\$ -	\$ -	\$ -
In-kind food distributed	2,251,214	-	-	-	-
Salaries	-	231,953	163,188	163,256	78,572
Food purchases	-	123,177	-	-	-
Food for families	-	-	-	-	-
Assistance to individuals	-	37,421	-	-	13,657
Utilities	-	-	-	16,724	-
Depreciation	-	-	-	-	-
Payroll taxes	-	20,064	13,949	15,146	6,557
Insurance	-	-	-	-	-
Repairs and maintenance	-	65	7,166	4,499	-
Ladies of Charity	-	-	-	2,957	-
Truck	-	-	30,700	-	-
Professional fees	-	-	-	-	-
Building expense	-	-	-	802	-
Rent	-	-	-	22,000	-
Supplies	-	854	3,321	2,667	1,861
Advertising	-	-	-	-	-
Printing and postage	-	-	-	-	-
Telephone	-	-	2,520	4,700	-
Miscellaneous and other	-	20,200	4,572	5,435	-
Waste disposal	-	-	6,244	5,403	-
Bank fees	-	-	-	4,322	-
Total expenses	\$ 13,794,943	\$ 433,734	\$ 231,660	\$ 247,911	\$ 100,647

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

Supporting Services

<u>Management and General</u>	<u>Fundraising</u>	<u>2014 Total</u>
\$ -	\$ -	\$ 11,543,729
-	-	2,251,214
187,679	24,755	849,403
-	-	123,177
39,027	-	39,027
16,421	-	67,499
20,208	-	36,932
113,786	-	113,786
15,160	2,073	72,949
64,304	-	64,304
30,488	-	42,218
-	-	2,957
-	-	30,700
15,940	-	15,940
1,614	-	2,416
-	-	22,000
29,738	205	38,646
1,126	-	1,126
10,188	-	10,188
5,939	-	13,159
38,150	3,061	71,418
523	-	12,170
4,759	-	9,081
<u>\$ 595,050</u>	<u>\$ 30,094</u>	<u>\$ 15,434,039</u>

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CARITAS OF WACO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$(242,420)	\$ 205,162
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	121,730	113,786
Loss on sale of assets	2,376	-
Changes in:		
Pledge receivable	8,864	13,650
Inventories	276,837	(257,762)
Change in value of beneficial interest in charitable remainder trust	15,299	-
Change in value of beneficial interest in assets held by Waco Foundation	36,088	(24,490)
Accrued liabilities	10,192	(8,732)
Other liabilities	(6,731)	7,487
Net cash provided by operating activities	222,235	49,101
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments (including dividends reinvested)	(98,279)	(334,526)
Purchase of property and equipment	(237,925)	(17,202)
Net cash used by investing activities	(336,204)	(351,728)
NET DECREASE IN CASH	(113,969)	(302,627)
CASH, BEGINNING OF YEAR	350,826	653,453
CASH, END OF YEAR	\$ 236,857	\$ 350,826

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

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CARITAS OF WACO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Classification of Net Assets

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 2015 and 2014 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 and Cash Equivalents

For the purposes the cash flow statement, Caritas considers cash in bank and all highly liquid investments with original maturity of three months or less at the date of acquisition to be “cash equivalents”. There are no cash equivalents as of December 31, 2015 and 2014.

Restricted Cash

There were no restricted cash amounts for the year ended December 31, 2015. During August 2014 the Board of Directors restricted \$69,931 of cash for purposes of renovations.

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 payable over a three year period.

Inventory

Inventories are stated at fair value as discussed in the footnote “Donated Goods and Services” below and determined by the average cost method. See “Basis for Qualified Opinion on 2014 Statement of Activities” in the Independent Auditors’ Report for information pertaining to Inventory as of December 31, 2014.

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 Statement of Financial Position as of December 31, 2015 and 2014 is \$135,333 and \$150,632, 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 \$1,407,895 and \$1,443,983 at December 31, 2015 and 2014, 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 \$343,606 and \$352,413 at December 31, 2015 and 2014, 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 39 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 2015 and 2014 and the average wholesale value of one pound of donated nonfood product to be \$3.98 for 2015 and 2014 based on a study 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 Statement of Activities and in the Statement 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, 2015 and 2014 are summarized as follows:

	December 31, 2015		
	<u>Historical Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Fair Value</u>
Money market	\$ 225,578	\$ -	\$ 225,578
Mutual Funds:			
Open-ended Mutual Funds	-	-	20,440
Equity:			
Stocks and ETFs	163,885	(75,211)	88,674
Fixed:			
Corporate Bonds	213,326	(1,152)	212,174
US Government Bonds	68,610	(5,497)	63,113
Certificates of Deposit	10,000	(40)	9,960
Foreign Bonds	<u>16,220</u>	<u>(453)</u>	<u>15,767</u>
	<u>\$ 697,619</u>	<u>\$(82,353)</u>	<u>\$ 635,706</u>
	December 31, 2014		
	<u>Historical Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Fair Value</u>
Money market	\$ 155,427	\$ -	\$ 155,427
Mutual Funds:			
Open-ended Mutual Funds	-	-	-
Equity:			
Stocks and ETFs	163,885	(937)	162,948
Fixed:			
Corporate Bonds	100,802	(653)	100,149
US Government Bonds	112,343	(9,494)	102,849
Certificates of Deposit	-	-	-
Foreign Bonds	<u>16,356</u>	<u>(302)</u>	<u>16,054</u>
	<u>\$ 548,813</u>	<u>\$(11,386)</u>	<u>\$ 537,427</u>

Unrealized gain (loss) in the amount of \$7,886 and \$1,554 for the years ended December 31, 2015 and 2014, 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, 2015 and 2014:

	<u>Inventory Pounds</u>	<u>Estimated Fair Value</u>	<u>Inventory Dollar Value</u>
December 31, 2015			
Food inventory	7,507	\$ 1.69	\$ 12,686
Nonfood inventory	<u>21,161</u>	\$ 3.98	<u>84,220</u>
	<u>28,667</u>		<u>\$ 96,906</u>
December 31, 2014			
Food inventory	164,629	\$ 1.69	\$ 278,223
Nonfood inventory	<u>24,000</u>	\$ 3.98	<u>95,520</u>
	<u>188,629</u>		<u>\$ 373,743</u>

See “Basis for Qualified Opinion on 2014 Statement of Activities” in the Independent Auditors’ Report for additional information regarding the noted donated inventory as of December 31, 2014 above.

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 statement of activities. Amounts paid are reported as expenses (food purchases and repairs and maintenance) on the statement of functional expenses.

4. BENEFICIAL INTEREST IN REMAINDER TRUST

The beneficial interest in the remainder trust as of December 31, 2015 and 2014 are summarized as follows:

	December 31, 2015		
	<u>Historical Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Fair Value</u>
Cash	\$ 1,308	\$ -	\$ 1,308
Equities	87,485	7,221	94,706
Fixed income	12,513	(359)	12,154
Hedge Funds	14,758	(895)	13,864
Real Estate	9,091	694	9,785
Tangible Assets	<u>5,249</u>	<u>(1,732)</u>	<u>3,518</u>
	<u>\$ 130,403</u>	<u>\$ 4,930</u>	<u>\$ 135,333</u>

	December 31, 2014		
	Historical Cost	Unrealized Gain (Loss)	Fair Value
Cash	\$ 5,281	\$ -	\$ 5,281
Equities	85,298	15,995	101,293
Fixed income	13,157	34	13,191
Hedge Funds	14,632	(211)	14,421
Real Estate	8,599	1,149	9,748
Tangible Assets	<u>7,500</u>	<u>(802)</u>	<u>6,698</u>
	<u>\$ 134,467</u>	<u>\$ 16,165</u>	<u>\$ 150,632</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Land	\$ 20,000	\$ 20,000
Building and improvements	2,426,484	2,405,391
Furniture and equipment	<u>841,626</u>	<u>630,483</u>
	3,288,110	3,055,874
Less accumulated depreciation	<u>(841,884)</u>	<u>(723,230)</u>
	<u>\$ 2,446,226</u>	<u>\$ 2,332,644</u>

Depreciation charged to expense totaled \$121,730 and \$113,786 during 2015 and 2014, 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, 2015 and 2014.

Cash and Money markets—

These funds are recorded at face value

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, 2015 and 2014.

Fair Value Measurements at Reporting Date Using

December 31, 2015	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices for Similar Assets (Level 2)
Equities	\$ 183,380	\$ 183,380	\$ -
Fixed	313,528	313,528	-
Cash equivalents	1,308	-	1,308
Money market	225,578	-	225,578
Hedge funds, Real Estate and Tangible Assets	27,167	-	27,167
Assets at Waco Foundation	1,407,895	-	1,407,895
Total at December 31, 2015	\$ 2,158,856	\$ 496,908	\$ 1,661,948
December 31, 2014	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices for Similar Assets (Level 2)
Equities	\$ 264,038	\$ 264,038	\$ -
Fixed	232,209	232,209	-
Cash equivalents	5,281	-	5,281
Money market	155,427	-	155,427
Hedge funds, Real Estate and Tangible Assets	30,867	-	30,867
Assets at Waco Foundation	1,443,983	-	1,443,983
Total at December 31, 2014	\$ 2,131,805	\$ 496,247	\$ 1,635,558

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 2015 and 2014.

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, 2015 and 2014, 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 2015 and 2014:

	2015	2014
Endowment net assets, January 1	\$ 1,443,983	\$ 1,419,493
Net income/ appreciation	(28,254)	32,046
Investment and administrative fees and grants approved	(7,834)	(7,556)
Endowment net assets, December 31	\$ 1,407,895	\$ 1,443,983

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, 2015 and 2014, Caritas had uninsured cash balances of \$3,319 and \$99,551, 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 2015 and 2014, a substantial portion of all 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 January 3, 2017, the date at which the financial statements were available to be issued, and determined that there are no events to disclose.