Christian Relief Services Charities

# CHRISTIAN RELIEF SERVICES CHARITIES, INC. AND AFFILIATES

## Consolidated Financial Statements and Supplemental Information

***For the Year Ended June 30, 2018***

## and Report Thereon

## Reports Required in Accordance with the Uniform Guidance

***For the Year Ended June 30, 2018***

**CHRISTIAN RELIEF SERVICES CHARITIES, INC. AND AFFILIATES**

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**For the Year Ended June 30, 2018**

Raffa

Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of
Christian Relief Services Charities, Inc.
and Affiliates

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Christian Relief Services Charities, Inc. (CRSC) and Affiliates (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We did not audit the financial statements of CRS Triangle Housing Corporation, CRS Fountain Place Housing Corporation, and Huntington Gardens, LLC, which statements reflect total assets of $34,029,107 as of June 30, 2018, and total revenue of $7,629,061 for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for CRS Triangle Housing Corporation, CRS Fountain Place Housing Corporation and Huntington Gardens, LLC, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

**Continued**

***Opinion***

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Christian Relief Services Charities, Inc. and Affiliates as of June 30, 2018, 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 Matters**

*Report on Supplemental Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual entities, and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Raffa, P.C.

**Raffa, P.C.**

Washington, DC
November 27, 2018

## CHRISTIAN RELIEF SERVICES CHARITIES, INC. AND AFFILIATES

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION
### June 30, 2018

| | |
|---|---|
| ASSETS | |
| Cash and cash equivalents | $ 9,739,627 |
| Grants and contributions receivable, net | 177,395 |
| Other receivables | 1,106,437 |
| Prepaid expenses and other assets | 462,990 |
| Inventory | 521,129 |
| Investments | 88,661,140 |
| Investments in operating entities | 2,505,846 |
| Cash surrender value of life insurance policies | 1,687,270 |
| Restricted investments for tenant security deposits | 541,124 |
| Restricted deposits and funded reserves | 1,726,271 |
| Trust accounts | 136,037 |
| Interest rate swap contract | 192,612 |
| Notes receivable | 3,777,513 |
| Property and equipment, net | 82,347,106 |
| TOTAL ASSETS | $ 193,582,497 |
| LIABILITIES AND NET ASSETS | |
| Liabilities | |
| Accounts payable and accrued expenses | $ 1,090,023 |
| Accrued interest | 367,227 |
| Deferred revenue | 37,084 |
| Lines of credit payable | 12,857,542 |
| Notes and mortgages payable, net of unamortized financing costs | 59,886,117 |
| Advance payments for rent | 88,984 |
| Deposits and funds held for others | 407,597 |
| TOTAL LIABILITIES | 74,734,574 |
| Net Assets | |
| Unrestricted | 89,135,409 |
| Temporarily restricted | 13,165,037 |
| Permanently restricted | 16,547,477 |
| TOTAL NET ASSETS | 118,847,923 |
| TOTAL LIABILITIES AND NET ASSETS | $ 193,582,497 |

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

## CHRISTIAN RELIEF SERVICES CHARITIES, INC. AND AFFILIATES

## CONSOLIDATED STATEMENT OF ACTIVITIES
### For the Year Ended June 30, 2018

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| OPERATING REVENUE AND SUPPORT | | | | |
| Housing rental and related income | $ 16,804,657 | $ - | $ - | $ 16,804,657 |
| Noncash contributions | 18,734,536 | - | - | 18,734,536 |
| Cash contributions | 4,098,005 | 587,742 | - | 4,685,747 |
| Other income | 1,959,495 | - | - | 1,959,495 |
| Grants from government agencies | 965,139 | - | - | 965,139 |
| Royalties | - | 1,454,275 | - | 1,454,275 |
| Wills and bequests | 308,698 | 1,217,424 | - | 1,526,122 |
| Workplace campaign contributions | - | 193,903 | - | 193,903 |
| Interest and dividend income | 1,175,683 | 764,466 | - | 1,940,149 |
| Net realized and unrealized gains | 522,954 | 1,096,800 | - | 1,619,754 |
| Net assets released from restrictions: | | | | |
| Satisfaction of time restrictions | 304,362 | (304,362) | - | - |
| Satisfaction of purpose restrictions | 3,804,253 | (3,804,253) | - | - |
| TOTAL OPERATING REVENUE AND SUPPORT | 48,677,782 | 1,205,995 | - | 49,883,777 |
| OPERATING EXPENSES | | | | |
| Program Services: | | | | |
| Domestic programs | 1,243,225 | - | - | 1,243,225 |
| American Indian programs | 5,330,398 | - | - | 5,330,398 |
| International programs | 16,545,432 | - | - | 16,545,432 |
| Housing programs | 16,345,789 | - | - | 16,345,789 |
| Total Program Services | 39,464,844 | - | - | 39,464,844 |
| Supporting Services: | | | | |
| Management and general | 2,280,024 | - | - | 2,280,024 |
| Fundraising | 3,950,092 | - | - | 3,950,092 |
| Total Supporting Services | 6,230,116 | - | - | 6,230,116 |
| TOTAL OPERATING EXPENSES | 45,694,960 | - | - | 45,694,960 |
| Change in net assets from operations | 2,982,822 | 1,205,995 | - | 4,188,817 |
| NONOPERATING ACTIVITIES | | | | |
| Realized gain on sale of properties | 23,379,046 | - | - | 23,379,046 |
| Realized gain on sale of investments in operating entities | 3,160,883 | - | - | 3,160,883 |
| CHANGE IN NET ASSETS | 29,522,751 | 1,205,995 | - | 30,728,746 |
| NET ASSETS, BEGINNING OF YEAR | 59,612,658 | 11,959,042 | 16,547,477 | 88,119,177 |
| NET ASSETS, END OF YEAR | $ 89,135,409 | $ 13,165,037 | $ 16,547,477 | $ 118,847,923 |

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

**CHRISTIAN RELIEF SERVICES CHARITIES, INC. AND AFFILIATES**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**
**For the Year Ended June 30, 2018**

| | Program Services | | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Domestic Programs | American Indian Programs | International Programs | Housing Programs | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total |
| In-kind expenditures | $ 590,126 | $ 2,083,295 | $15,790,668 | $ - | $ 18,464,089 | $ - | $ - | $ - | $ 18,464,089 |
| Wages and benefits | 69,561 | 401,976 | 70,542 | 2,655,590 | 3,197,669 | 811,813 | 507,797 | 1,319,610 | 4,517,279 |
| Contract services | 5,707 | 279,511 | 297 | 2,759,652 | 3,045,167 | 18,055 | 167,414 | 185,469 | 3,230,636 |
| Depreciation and amortization | - | 16,747 | - | 2,602,002 | 2,618,749 | 11,790 | - | 11,790 | 2,630,539 |
| Interest expense | - | - | - | 2,617,174 | 2,617,174 | 155,074 | - | 155,074 | 2,772,248 |
| Printing and production | 25,708 | 93,612 | 19,101 | 882 | 139,303 | 136 | 2,127,781 | 2,127,917 | 2,267,220 |
| Utilities | 2,418 | 7,859 | 2,394 | 1,893,714 | 1,906,385 | 14,605 | 5,665 | 20,270 | 1,926,655 |
| Grants | 204,823 | 1,102,591 | 415,555 | - | 1,722,969 | 20 | - | 20 | 1,722,989 |
| Procurement fees | 230,010 | 852,410 | 83,216 | - | 1,165,636 | - | - | - | 1,165,636 |
| Real estate taxes | 568 | 1,928 | 568 | 890,913 | 893,977 | 15,454 | - | 15,454 | 909,431 |
| Repairs and maintenance | 172 | 42,050 | 172 | 849,439 | 891,833 | 11,769 | 435 | 12,204 | 904,037 |
| Postage | 3,315 | 31,896 | 3,202 | 5,050 | 43,463 | 7,318 | 790,649 | 797,967 | 841,430 |
| Rent | 20,152 | 20,152 | 20,152 | - | 60,456 | 21,315 | 36,475 | 57,790 | 118,246 |
| Office supplies, dues and subscriptions | 7,071 | 67,728 | 4,553 | 158,822 | 238,174 | 121,304 | 172,916 | 294,220 | 532,394 |
| Bank charges | 846 | 656 | 810 | 42,160 | 44,472 | 473,697 | 388 | 474,085 | 518,557 |
| General insurance | 3,283 | 12,835 | 3,283 | 413,769 | 433,170 | 42,776 | 3,099 | 45,875 | 479,045 |
| Professional and consulting | - | 7,179 | - | 196,803 | 203,982 | 214,554 | - | 214,554 | 418,536 |
| Miscellaneous | 8,537 | 5,475 | 225 | 160,356 | 174,593 | 179,758 | 437 | 180,195 | 354,788 |
| Homeowner association fees | - | - | - | 343,822 | 343,822 | - | - | - | 343,822 |
| Provision for doubtful accounts | 32,832 | 37,540 | 39,735 | 203,738 | 313,845 | 9,919 | - | 9,919 | 323,764 |
| Payroll taxes | 4,847 | 28,845 | 4,956 | 180,324 | 218,972 | 49,401 | 35,119 | 84,520 | 303,492 |
| Meetings and travel | - | 123,553 | 8,056 | 73,299 | 204,908 | 37,066 | 17,140 | 54,206 | 259,114 |
| Shipping | 33,096 | 108,571 | 77,522 | 1,330 | 220,519 | 1,961 | 2,298 | 4,259 | 224,778 |
| Telephone | 101 | 3,711 | 425 | 80,240 | 84,477 | 82,239 | 633 | 82,872 | 167,349 |
| Advertising | 52 | 278 | - | 154,046 | 154,376 | - | 2,067 | 2,067 | 156,443 |
| List rental | - | - | - | - | - | - | 79,779 | 79,779 | 79,779 |
| Labor, materials and supplies | - | - | - | 62,664 | 62,664 | - | - | - | 62,664 |
| TOTAL EXPENSES | $ 1,243,225 | $ 5,330,398 | $ 16,545,432 | $ 16,345,789 | $ 39,464,844 | $ 2,280,024 | $ 3,950,092 | $ 6,230,116 | $ 45,694,960 |

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

## CHRISTIAN RELIEF SERVICES CHARITIES, INC. AND AFFILIATES

### CONSOLIDATED STATEMENT OF CASH FLOWS
**For the Year Ended June 30, 2018**
**Increase (Decrease) in Cash and Cash Equivalents**

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | $ 30,728,746 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 2,630,539 |
| Provision for doubtful accounts | 86,123 |
| Noncash contributions | (18,734,536) |
| In-kind expenditures | 18,464,089 |
| Unrealized losses on investments | 889,480 |
| Realized gains on investments | (2,509,234) |
| Unrealized gain on interest rate swap contract | (248,177) |
| Realized gain on sale of properties | (23,379,046) |
| Realized gain on sale of investments in operating entities | (3,160,883) |
| Changes in assets and liabilities: | |
| Grants and contributions receivable | 18,612 |
| Other receivables | 129,256 |
| Prepaid expenses and other assets | 149,672 |
| Purchased inventory | 10,982 |
| Cash surrender value of life insurance policies | (60,854) |
| Restricted investments for tenant security deposits | 55,720 |
| Restricted deposits and funded reserves | 296,901 |
| Accounts payable and accrued expenses | (286,856) |
| Accrued interest | (188,228) |
| Deferred revenue | 10,997 |
| Advance payments for rent | (15,056) |
| Deposits and funds held for others | (51,519) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 4,836,728 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of investments | (104,252,703) |
| Proceeds from sales of investments | 88,038,057 |
| Purchase of investments in operating entities | (1,416,014) |
| Proceeds from sales of investments in operating entities | 4,282,020 |
| Net withdrawals from trust accounts | 656,874 |
| Return of investments in operating entities | 918,210 |
| Proceeds from the sale of properties, net of selling expenses | 27,535,346 |
| Purchase of properties and fixed assets | (13,157,958) |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 2,603,832 |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Proceeds from mortgages and notes payable | 5,506,800 |
| Principal payments on mortgages and notes payable | (7,110,569) |
| Principal payments on capital lease obligation | (1,944,153) |
| Proceeds from borrowings under lines of credit agreement | 2,650,000 |
| Payments made on borrowings under lines of credit agreement | (2,184,035) |
| NET CASH USED IN FINANCING ACTIVITIES | (3,081,957) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 4,358,603 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 5,381,024 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 9,739,627 |
| SUPPLEMENTAL INFORMATION | |
| Cash payments for interest | $ 2,923,259 |

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

1. Organization and Summary of Significant Accounting Policies

**Organization**

Christian Relief Services Charities, Inc. (CRSC) was incorporated in April 1985 under the Virginia Nonstock Corporation Act to assist in the alleviation of human suffering, misery, pain and disability in the world by advancing and improving the welfare of all persons while preserving native heritages, customs and beliefs, which includes the acquisition of low-income housing and developing, renovating and managing housing for persons of limited means, the disabled and the elderly.

The following 501(c)(3) affiliates are included on CRSC's roster and are nonstock corporations:

Christian Relief Services, Inc. (CRSI)
Americans Helping Americans, Inc. (AHA)
American Indian Youth Running Strong, Inc. (RS)
Bread and Water for Africa, Inc. (BWA)
Mountain Lakes Housing Foundation, Inc. (Mountain Lakes)
Christian Relief Services Kansas Affordable Housing Corporation (CRS Kansas)
CRSC Residential, Inc. (CRSC Residential)
CRS Triangle Housing Corporation (CRS Triangle)
CRS Scottsdale Housing Corporation (CRS Scottsdale)
CRS Fountain Place Housing Corporation (CRS Fountain Place)
CRS Cambridge Court Housing Corporation (CRS Cambridge)
Christian Relief Services of Virginia, Inc. (CRS Virginia)
CRS Housing Preservation, Inc. (Housing Preservation)
CRS Peoria Housing Corporation (CRS Peoria)
CRS Somerset Place Housing Corporation (CRS Somerset)
CRS Palms Housing Corporation (CRS Palms)
CRS Countryside Housing Corporation (CRS Countryside)
CRS Ironwood Housing Corporation (CRS Ironwood)
CRS McClellan Housing Corporation (CRS McClellan)
CRS Petersburg Housing Corporation (CRS Petersburg)

Christian Relief Services/21$^{st}$ Century Campaign, Inc. (CRS/21) is a nonstock corporation and shares a common board, but is not included on CRSC's group roster.

All entities, except for CRSI, AHA, RS, BWA and CRS/21, were formed to provide low-income housing for persons of limited financial means, qualified housing for disabled persons and other types of qualified housing for elderly persons.

**Continued**

1. Organization and Summary of Significant Accounting Policies (continued)

**Organization (continued)**

CRSI provides funding, technical support services and in-kind goods to communities striving to break the stranglehold of poverty in order to achieve sustainable solutions. Many communities within the United States, and throughout the world, suffer from a lack of basic infrastructure services – clean water, medicine, education and housing. CRSI works closely with partner charities, including affiliates, individuals and nongovernment organizations embedded in targeted communities, to determine effective ways of sharing resources and creating long-term solutions for the alleviation of human suffering, misery, pain and disability in the world by advancing and improving the welfare of all persons while preserving native heritages, customs and beliefs.

AHA was organized to assist in the alleviation of human suffering, misery, pain and disability by helping fellow Americans with basic necessities, such as shelter, home repair, food, clothing and medical assistance, throughout the United States.

RS was organized to help American Indian people meet their immediate survival needs – food, water and shelter – while implementing and supporting programs designed to create opportunities for self-sufficiency and self-esteem, particularly for native youth.

BWA was organized to promote positive change in Africa by supporting and strengthening grassroots initiatives for self-sufficiency, health and education, as well as assisting in the development of alternative energy sources, agricultural techniques, conservation programs, educational and medical programs, and water resources.

CRS/21 was organized to operate exclusively as a charitable organization whose sole purpose is to support the welfare of CRSC and affiliates.

All activities of the Organization are funded primarily from housing rental income and related service fees and cash and noncash contributions.

**Basis of Accounting and Presentation**

The accompanying consolidated financial statements of CRSC and its affiliates (collectively referred to as the Organization) have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

**Principles of Consolidation**

The consolidated financial statements of the Organization include the accounts of CRSC, CRSI, AHA, RS, BWA, CRS Virginia, CRS/21, CRSC Residential, Housing Preservation, Mountain Lakes, CRS Kansas, CRS Triangle, CRS Scottsdale, CRS Cambridge, CRS Fountain Place, CRS Peoria, CRS Somerset, CRS Palms, CRS McClellan, CRS Countryside, CRS Ironwood and CRS Petersburg. The entities have been consolidated due to the

**Continued**

1. Organization and Summary of Significant Accounting Policies (continued)

**Principles of Consolidation (continued)**

presence of common control and economic interest, as required under GAAP. All significant intercompany balances and transactions have been eliminated in consolidation. The balances and activities of CRS Virginia include those of its wholly-owned subsidiary, Huntington Gardens, LLC (Huntington Gardens), in the accompanying consolidating schedules.

**Cash and Cash Equivalents**

Cash and cash equivalents include demand deposits, money market accounts and all highly liquid investments with initial maturities of three months or less.

**Contributed Relief Materials and Volunteer Services**

Contributed relief materials received by the Organization consist of food, clothing, hygiene products, shoes, school supplies, bedding, medicine, medical equipment and medical supplies and are recorded as revenue and inventory at the estimated fair value at the time of receipt. 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. Upon donation to a donee organization, the materials are expensed at the estimated fair value at their time of donation to the Organization and are released from inventory.

Contributed relief materials inventory is stated at the lower of cost or net realizable value, as determined by the first-in, first-out method. As of June 30, 2018, the donated inventory was predominantly related to medicine, medical supplies, clothes, shoes, food and supplies.

The Organization's programs are also furthered by a substantial number of nonprofessional volunteers who have donated their services to the Organization. The value of these services is not reflected in the accompanying consolidated financial statements because they do not meet the criteria for recognition under GAAP.

**Investments**

Investments are recorded in the accompanying consolidated statement of financial position at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income, including net realized and unrealized gains (losses), is reflected in the consolidated statement of activities as an increase (decrease) in unrestricted net assets, unless the investment income use is restricted by explicit donor stipulation for a specific purpose or law. Interest and dividend income is recorded on the accrual basis.

**Fair Value Measurement**

In accordance with the accounting standards for fair value measurement for those assets and liabilities that are measured at fair value on a recurring basis, the Organization has categorized its applicable financial instruments into a required fair value hierarchy. The fair

1. Organization and Summary of Significant Accounting Policies (continued)

**Fair Value Measurement (continued)**

value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument. Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities whose values are based on unadjusted quoted prices in an active market that the Organization has the ability to access.

*Level 2* – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

*Level 3* – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The Organization's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2018 are described in Note 10 of these consolidated financial statements.

**Investments in Operating Entities**

The Organization has investments in operating entities that do not have readily determinable fair values and are accounted for under the cost method. Under the cost method, investments are recorded at the acquisition costs. Dividends distributed from accumulated earnings of the investee are recorded as revenue in the period received. Dividends in excess of accumulated earnings are considered a return of investment and recorded as a reduction of the cost of the investment.

**Investments in Limited Partnerships**

The Organization has a limited partner interest in certain limited partnerships. The investments are accounted for under the cost method. Under the cost method, investments are recorded at the acquisition cost. Distributions or royalties received are recorded as income at the time of receipt. The investments in these limited partnerships are recorded at zero, since there was no monetary consideration given at the time they were donated to the Organization. The limited partnerships are not consolidated, because the Organization holds a limited partner interest.

1. Organization and Summary of Significant Accounting Policies (continued)

**Property and Equipment and Related Depreciation and Amortization**

Property and equipment are stated at cost, except for donated property, which is recorded at the estimated fair value upon receipt. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets, which are as follows:

| | |
|---|---|
| Buildings | 40 years |
| Leasehold improvements | 7 to 40 years |
| Property and equipment | 3 to 10 years |

Buildings and leasehold improvements are amortized over the lease period or useful lives of the buildings or improvements, whichever is shorter, using the straight-line method. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation and amortization, and any gain or loss is reflected in revenue or expense in the accompanying consolidated statement of activities. Major additions with a cost in excess of $1,000 are capitalized, while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

**Impairment of Long-Lived Assets**

The Organization reviews long-lived assets to determine if the carrying value exceeds the undiscounted cash flows expected to be derived from the asset. If the carrying value exceeds the cash flows, then the recorded amount of the assets will be reduced to their fair value. There was no impairment loss recognized during the year ended June 30, 2018.

**Deferred Financing Costs and Amortization**

Unamortized financing costs are reported as a direct deduction from the carrying amount of the related debt liability. Amortization of financing costs is reported as a component of interest expense and is computed using an imputed interest rate in the related loan.

**Net Assets**

The net assets of the Organization are classified as follows:

- Unrestricted net assets represent funds that are available for support of the Organization's operations. Included in unrestricted net assets are funds that have been designated by the Board of Directors to serve as an endowment.
- Temporarily restricted net assets represent amounts that are subject to donor-imposed restrictions to be used for a particular purpose or within a specific time period.
- Permanently restricted net assets represent amounts that include donor-imposed restrictions that stipulate that the resources be maintained in perpetuity and that only the investment earnings on such amounts be used in the manner specified by the donor.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

**Revenue Recognition**

Gifts and grants of cash and other assets are recognized as revenue at their net realizable value when an unconditional promise to give is received by the Organization. The Organization reports gifts and grants of cash and other assets as unrestricted support and available for general operations, unless specifically restricted by the donor. The Organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets as to purpose or time. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions. Workplace campaign contributions with payments due in future years are reported as temporarily restricted revenue in the accompanying consolidated statement of activities.

Revenue recognized for contributions that have been committed to the Organization but have not been received is reflected as grants and contributions receivable in the accompanying consolidated statement of financial position. Grants and contributions receivable are reported net of an allowance for doubtful accounts. The allowance is based on historical collection experience and a review of the current status of the grants and contributions receivable. A provision for doubtful accounts is made when collection of the full amount is no longer probable.

Wills and bequests are recognized at the time an unassailable right to the gift has been established, the proceeds are measurable and the Organization accepts the gift. Proceeds that have not been received as of year-end are included in grants and contributions receivable in the accompanying consolidated statement of financial position.

Royalty income is reported when earned as an increase in temporarily restricted net assets due to a donor-imposed restriction.

Housing rental income is recognized as the rents become due. Rental payments received in advance are deferred until earned and shown as advance payments for rent in the accompanying consolidated statement of financial position. All contracts between the Organization and the tenants of its properties are considered operating leases.

**Estimates**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Measure of Operations**

Operating revenue and expenses exclude realized gains or losses from sale of properties and investments in operating entities and infrequent or unusual transactions unrelated to the Organization’s ordinary activities.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

**Functional Allocation of Expenses**

The costs of providing the programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities and functional expenses. Costs directly related to program and/or supporting services are charged to these functional areas. Expenses related to more than one function are allocated among the programs and supporting services benefited based on salaries, employee headcount and allocable space used for each program or supporting service.

2. Investments

As of June 30, 2018, the fair value of the Organization's investments was as follows:

| | |
|---|---|
| Equity securities | $ 31,496,747 |
| Mutual funds | 29,866,311 |
| Fixed-income securities | 18,541,960 |
| Exchange-traded funds | 8,645,728 |
| Money market funds | 110,394 |
| Total Investments | $ 88,661,140 |

A summary of investment income is as follows for the year ended June 30, 2018:

| | |
|---|---|
| Interest and dividends | $ 1,940,149 |
| Unrealized losses | (889,480) |
| Realized gains | 2,509,234 |
| Net Investment Income | $ 3,559,903 |

Included in interest and dividend income is $26,658 of interest and dividends earned on the Organization's trust accounts.

3. Investments in Operating Entities

| | |
|---|---|
| CRSC Residential has 54% Class A and a 88% Class B member interest in MM – Spring Creek LLC. The LLC was formed solely to act as a member of Spring Creek PLA Manager, LLC (SCM), a Texas limited liability company. SCM was organized to serve as manager of and own a 10% ownership interest in Spring Creek PLA Investors, LLC (SCI), a Texas limited liability company. SCI owns and operates the property. No summarized financial data is provided as the amounts are immaterial. | $ 575,000 |
| CRSC Residential has 7.5% member interest in MM Highland Bluffs, LLC. The LLC was formed to directly or indirectly acquire or redevelop, reposition, own, operate, manage, lease, finance and sell or otherwise dispose of an apartment complex in Dallas, Texas. No summarized financial data is provided as the amounts are immaterial. | 430,000 |

**Continued**

3. Investments in Operating Entities (continued)

| | | |
|---|---|---|
| CRSC Residential has 54% Class A and 72% Class B membership interests in MM Somerset and Stratton, LLC. The LLC was formed solely to act as a member of Assets SW Manager, LLC (ASM), a Texas LLC. ASM was organized to serve as manager of and own 10% interest in Assets SW Investors, LLC (ASI), a Texas LLC, which owns the Stratton apartments in Texas. No summarized financial data is provided as the amounts are immaterial. | $ | 398,833 |
| CRSC Residential has 54% Class A and a 85% Class B member interest in MM – Bellevue Heights LLC. The LLC was formed solely to act as a member of Bellevue Heights Manager, LLC (BHM), a Texas limited liability company. BHM was organized to serve as manager of and own 19.75% ownership interest in Bellevue Heights Investors, LLC (BHI) a Texas limited liability company. BHI owns and operates the property. No summarized financial data is provided as the amounts are immaterial. | | 346,950 |
| CRSC Residential has 0.6% member interest in Braesridge Apartments, LLC. The LLC was formed to directly or indirectly acquire or redevelop, reposition, own, operate, manage, lease, finance and sell or otherwise dispose of an apartment complex in Houston, Texas. No summarized financial data is provided as the amounts are immaterial. | | 261,000 |
| CRSC Residential has 54% Class A member interest in MM – Corners LLC. The LLC was formed solely to act as a member of Corners Dal Manager, LLC (CFM), a Texas limited liability company. CFM was organized to serve as the manager of and own 10% ownership interest in Corners Dal Investors, LLC a Texas limited liability company (CFI) which owns and operates the property. No summarized financial data is provided as the amounts are immaterial. | | 224,230 |
| CRSC Residential has 54% Class A and 75% Class B member interest in MM – Valencia LLC. The LLC was formed solely to act as a member of Valencia FW Manager, LLC (VFM), a Texas limited liability company. VFM was organized to serve as manager of and own a 10% ownership interest in Valencia FW Investors, LLC (VFI), a Texas limited liability company, which owns and operates the property. No summarized financial data is provided as the amounts are immaterial. | | 207,758 |
| CRSC Residential purchased 191 Class B units in Founders Hall LLC, which owned a building in Alexandria, Virginia. The LLC wholly-owned Founders Hall OpCo, LLC (OpCo), a Virginia limited liability company. OpCo was organized to serve as manager of and operate and sell the property. No summarized financial data is provided as the amounts are immaterial. | | 62,075 |

Continued

3. Investments in Operating Entities (continued)

| | |
|---|---|
| CRSC Residential has 6% member interest in DOF IV REIT Holdings LLC. The LLC was formed solely to directly or indirectly acquire or redevelop, reposition, own, operate, manage, lease, finance and sell or otherwise dispose of an apartment complex in Houston, Texas. During the year ended June 30, 2018, the LLC distributed $1,156,667, which reduced the balance of the investment to zero. No summarized financial data is provided as the amounts are immaterial. | $ - |
| VIP Housing Partners I, L.P., (VIP Housing) is a Virginia limited partnership formed in 1992 to construct and operate two residential rental apartment buildings known as Harborview Apartments in Quantico, Virginia. The Harborview apartment buildings were completed and available for rent in January 1995. On August 26, 2013, Housing Equity Fund of Virginia II, L.P. withdrew as the Limited Partner and Housing Preservation became the New Limited Partner. As of December 31, 2013, the Partnership had two partners – CRS Virginia owns a 1% general partner interest and Housing Preservation owns a 99% limited partner interest. Profits, losses, tax credits and cash disbursements are allocated between the partners based on their respective ownership interest. No summarized financial data is provided, as the amounts are immaterial. | - |
| Total Investments in Operating Entities | $ 2,505,846 |

CRSC Residential sold its 40% interest in MM – Beverly Palms LLC and its 15% interest in MM – Westchase LLC during the year ended June 30, 2018. CRSC Residential recognized $3,160,883 in a gain from sale of these investments, which was recorded as realized gain on sale of investments in operating entities in the accompanying consolidated schedule of activities.

4. Interest in Limited Partnerships

CRSC owns 0.01% limited partnership interests in 11 partnerships. The purpose of the partnerships is to provide low-income housing, subject to regulation by HUD. In connection with the acquisition of the limited partnership interests, CRSC acquired an interest in related deferred purchase money notes. The notes are payable from the future cash flows of the operating partnerships. Management is unable to determine the amount of any future cash flows of the partnerships with any degree of certainty and, therefore, the notes have been fully reserved. Any future collections under the notes will be recorded as income. There was cash received in the amount of $49,953 on the notes during the year ended June 30, 2018.

Continued

5. Cash Surrender Value of Life Insurance Policies

On July 1, 2006, CRSI entered into a contract with an individual to act as a representative and spokesperson. In accordance with the contract terms, CRSC purchased two $500,000 key man life insurance policies on the spokesperson, whereby CRSC is the sole beneficiary for one of the policies. As of June 30, 2018, the cash surrender value of the policies totaled $733,318, and this amount is included in cash surrender value of life insurance policies in the accompanying consolidated statement of financial position.

CRSC also carries key man life insurance policies on certain executives, with a total face amount of $2,500,000. As of June 30, 2018, the cash surrender value of the policies totaled $953,952, and this amount is included in cash surrender value of life insurance policies in the accompanying consolidated statement of financial position.

6. Notes Receivable

Housing Preservation entered into three money purchase note agreements with four partnerships totaling $7,310,766, including accrued interest, in connection with the sale of four rental properties. Interest-only payments are due from cash flows, as defined, from the respective operating partnerships. The notes bear interest at rates ranging from 4.3% to 4.83%. Accrued interest and principal are due in full at various dates, ranging from January 2046 through March 2048. In addition, Housing Preservation was assigned two notes receivable totaling $3,043,647, including accrued interest. The notes bear interest at a rate of 1%. Accrued interest and principal payments are due August 2031. In the prior year, management determined that these notes receivable were impaired and a valuation allowance of $6,576,900 was recognized. The impairment was determined by comparing the book value with the discounted expected future cash flows of the notes receivable. No additional impairment loss was recognized during the year ended June 30, 2018.

7. Property and Equipment

The Organization held the following property and equipment as of June 30, 2018:

| | |
|---|---|
| Buildings and improvements | $ 81,743,820 |
| Land and improvements | 15,427,814 |
| Office equipment, furniture and fixtures | 5,358,003 |
| Vehicles | 231,416 |
| Leasehold improvements | 71,016 |
| Total Property and Equipment | 102,832,069 |
| Less: Accumulated Depreciation and Amortization | (20,484,963) |
| Property and Equipment, Net | $ 82,347,106 |

Depreciation and amortization expense was $2,630,539 for the year ended June 30, 2018.

**Continued**

7. Property and Equipment (continued)

In September 2017, CRS Virginia sold one of its properties for $430,000, net of selling expenses, and recognized a gain of $162,555 during the year ended June 30, 2018. In January 2018, Mountain Lakes sold its property in Arizona for approximately $3,165,861, net of selling expenses, and recognized a gain of $2,639,426 during the year ended June 30, 2018. In May 2018, CRS Residential sold one of its properties for $562,134, net of selling expenses, and recognized a gain of $254,290 during the year ended June 30, 2018. In June 2018, CRS Cambridge sold the Cambridge Court property for $23,377,351, net of selling expenses, and recognized a gain of $20,322,775 during the year ended June 30, 2018. The gain on sale of the properties is shown in the accompanying consolidated statement of activities as a nonoperating activity.

CRSC owns one apartment community, Terry Lynn, in Phoenix, Arizona, which consists of 10 units. The use of the property is partially governed by a land use restriction under an agreement with the Resolution Trust Corporation to provide housing units to low- and very-low-income residents. The number of units restricted for Terry Lynn is two units for persons earning less than 50% of the area median income and two units for persons making less than 65% of the AMI. The term of the agreement is 30 years, and the agreement expires on January 19, 2025.

8. Lines of Credit

CRS/21 has a line of credit agreement with a financial institution in the amount of $20,000,000. The line of credit is secured by CRS/21's investments and matures on December 31, 2019. Interest accrues on the unpaid principal at 1% over the one-month London Interbank Offered Rate (LIBOR), or 2.9% as of June 30, 2018. The outstanding amount on this line of credit was $12,207,542 as of June 30, 2018. Interest expense incurred on this line of credit was $123,417 for the year ended June 30, 2018.

CRSI has a line of credit agreement with a financial institution in the amount of $1,500,000. The line of credit is secured by personal property and guaranteed by CRSC. On March 13, 2018, the agreement was modified to extend the maturity date to July 27, 2019. CRSI is also required to comply with certain financial covenants. As of June 30, 2018, the outstanding balance was $650,000 on this line of credit and CRSI was in compliance with the financial covenants. Interest accrues on the unpaid principal at the variable rate of the bank's prime rate plus 0.5% or 3.5% per annum, whichever is higher. Interest expense paid on this line of credit was $54,410 for the year ended June 30, 2018, and the interest rate was 4.5% as of June 30, 2018.

Continued

9. Notes and Mortgages Payable

Notes and mortgages payable consisted of the following as of June 30, 2018:

<u>CRS Virginia</u>

| | |
|---|---|
| Branch Banking and Trust Company (BB&T), due in monthly installments of $36,578, including interest at 4.50% per annum, payable through February 2033. The notes are secured by deeds of trust on 16 homes located in Virginia. The homes provide housing for low-income families, the military and special needs population. | $ 3,443,370 |
| Virginia Housing Development Authority (VHDA), due in monthly installments of $6,179, including interest at 3.75% per annum, payable through April 1, 2046. The note is secured by deeds of trust on three homes located in Fairfax, Vienna, and Falls Church, Virginia. The homes provide housing and support services for mentally handicapped homeless persons. Under agreements with the lenders, the Organization is required to make monthly deposits for insurance and taxes on all VHDA mortgages. | 1,161,103 |
| Virginia Department of Housing and Community Development (VDHCD) and Fairfax County Redevelopment and Housing Authority (FCRHA) loan made under the Home Investment Partnerships program. No monthly installments of principal or interest are due, subject to the Organization's compliance with loan terms. The note is secured by deeds of trust on 19 homes located in Alexandria, Springfield, Reston, Herndon, Falls Church, Annandale, Centreville, Fairfax and Burke, Virginia. The loan terms were in effect for the affordability period of up to 15 years, expiring in 2013 through 2015, after which time, assuming there were no defaults on the loan terms, the amount converts to a grant. During 2018, the loan was extended through the end of 2018. The homes provide transitional housing and support services for homeless individuals and families. If certain specified events occur, the Organization will be obligated to pay to FCRHA an "equity share" ranging from 32.37% to 45.09% of the Organization's equity in the property, as defined, to the extent that the equity share exceeds amounts otherwise due from the Organization at that time. | 748,820 |
| FCRHA loans made under the Community Development Block Grant program (CDBG). No monthly installments of principal or interest are due, subject to the Organization's compliance with loan terms. The notes are secured by deeds of trust on 19 homes located in Alexandria, Springfield, Reston, Herndon, Falls Church, Annandale, Centreville, Fairfax and Burke, Virginia. The loan terms were in effect for the affordability period of up to 15 years, expiring in 2013 through 2015, after which time, assuming there were no defaults on the loan terms, the amount converts to a grant. During 2018, the loan was extended through the end of 2018. The homes provide transitional housing and support services for homeless individuals and families. If certain specified events | |

**Continued**

9. Notes and Mortgages Payable (continued)

CRS Virginia (continued)

| | | |
|---|---|---|
| occur, the Organization will be obligated to pay to FCRHA an "equity share" ranging from 6.81% to 18.62% of the Organization's equity in the property, as defined, to the extent that the equity share exceeds amounts otherwise due from the Organization at that time. | $ | 261,691 |
| FCRHA loans made under the CDBG. No monthly installments of principal or interest are due, subject to CRS Virginia's compliance with loan terms. The notes are secured by deeds of trust on a home located in Annandale, Virginia. The home provides affordable rental housing for at least three low and/or moderate income individuals with serious mental illness and co-occurring substance abuse disorders with incomes at or below 30% of the area median income. If certain specified events occur, the Organization will be obligated to pay to FCRHA an "equity share" of 77% of the Organization's equity in the property, as defined, to the extent that the equity share exceeds amounts otherwise due from the Organization at that time. | | 244,000 |
| FCRHA loans made under the CDBG. No monthly installments of principal or interest are due, subject to the Organization's compliance with loan terms. The notes are secured by deeds of trust on a home located in Annandale, Virginia. The loan terms are in effect for the affordability period of up to 30 years, expiring in 2040, after which time, assuming there are no defaults on the loan terms, the amount converts to a grant. The homes provide transitional housing and support services for homeless individuals and families. If certain specified events occur, the Organization will be obligated to pay to FCRHA an "equity share" of 49.5% of the Organization's equity in the property, as defined, to the extent that the equity share exceeds amounts otherwise due from the Organization at that time. | | 92,493 |
| FCRHA loans made under the CDBG. No monthly installments of principal or interest are due, subject to the Organization's compliance with loan terms. The notes are secured by deeds of trust on a home located in Chantilly, Virginia. The loan terms are in effect for the affordability period of up to 30 years, expiring in 2040, after which time, assuming there are no defaults on the loan terms, the amount converts to a grant. The homes provide transitional housing and support services for homeless individuals and families. If certain specified events occur, the Organization will be obligated to pay to FCRHA an "equity share" of 69.6% of the Organization's equity in the property, as defined, to the extent that the equity share exceeds amounts otherwise due from the Organization at that time. | | 89,901 |

**Continued**

9. Notes and Mortgages Payable (continued)

CRS Virginia (continued)

| | |
|---|---|
| FCRHA loans made under the CDBG. No monthly installments of principal or interest are due, subject to the Organization's compliance with loan terms. The notes are secured by deeds of trust on a home located in Chantilly, Virginia. The loan terms are in effect for the affordability period of up to 30 years, expiring in 2040, after which time, assuming there are no defaults on the loan terms, the amount converts to a grant. The homes provide transitional housing and support services for homeless individuals and families. If certain specified events occur, the Organization will be obligated to pay to FCRHA an "equity share" of 50.4% of the Organization's equity in the property, as defined, to the extent that the equity share exceeds amounts otherwise due from CRS Virginia at that time. | $ 89,004 |
| Huntington Gardens is a single member limited liability company (LLC) whose sole member is CRS Virginia. Huntington Gardens entered into an agreement to finance its mortgage with HUD under Section 223(f) of the National Housing Act on September 1, 2016. The principal amount of the loan was for $12,850,000, is insured by the Federal Housing Administration (FHA) and is collateralized by a deed of trust on the rental property. The note bears interest at the rate of 3.08% per annum. Principal and interest are payable in monthly installments of $50,029 beginning November 1, 2016 through maturity on October 1, 2051. | |
| Under agreements with the mortgage lender and FHA, Huntington Gardens is required to make monthly escrow deposits for taxes, insurance and replacement of project assets, and is subject to restrictions as to operating policies, rental charges, operating expenditures and cash distributions. In addition, Huntington Gardens is required to establish a reserve for noncritical repairs in the amount of $130,012. This reserve is held by the mortgage lender, and all disbursements require the written approval of HUD. As of June 30, 2018, the balance in the noncritical reserve was $112,289. | |
| The liability of Huntington Gardens under the mortgage note is limited to the underlying value of the real estate collateral plus other amounts deposited with the lender. The mortgage is also collateralized by an assignment of rents. | 12,500,616 |

Continued

9. Notes and Mortgages Payable (continued)

CRS Triangle

On December 26, 2012, CRS Triangle entered into a note with BB&T. The note had a principal of $8,000,000 and was secured by a deed of trust and an assignment of leases, rents and profits. The note called for interest at an adjustable rate equal to the 30-day LIBOR plus 2.25% per annum. Principal and interest were payable by CRS Triangle in monthly installments of approximately $51,884 through maturity on December 25, 2017. This loan was paid off on December 17, 2015 with the proceeds of the refinancing described below.

On December 17, 2015, CRS Triangle entered into a loan modification agreement with the lender to amend and restate its mortgage loan and its improvement loan in their entirety. The note has a principal balance of $11,000,000 and is secured by a deed of trust and an assignment of leases and rents and profits. The note calls for interest at an adjustable rate equal to the one-month LIBOR (2.09% at June 30, 2018) plus 2.25% per annum. Principal is payable in monthly installments beginning at approximately $21,300 through maturity on December 17, 2020. The monthly principal payments increase annually by approximately $900 per month. Interest is paid monthly based on the variable rate at the time. All outstanding principal and interest are due on the maturity date, including a balloon payment of $9,631,908. CRS Triangle must comply with certain financial covenants. The liability of CRS Triangle under the note is limited to the underlying value of the real estate collateral plus other amounts deposited with the lender.

| | |
|---|---|
| In connection with the mortgage, CRS Triangle entered into an interest swap agreement, effective December 17, 2015, to reduce the impact of changes in interest rates. CRS Triangle has an amortizing interest rate swap agreement with an original notional value of $11,000,000 and a termination date of December 17, 2020. The swap pays interest at a fixed rate of 4.09% per annum. The agreement changes CRS Triangle's interest rate exposure to an effective rate of 4.18%. CRS Triangle is exposed to credit loss in the event of nonperformance by the counterparty. However, CRS Triangle does not anticipate non-performance by the counterparty. | $ 10,327,306 |
| Huntington Gardens is also obligated under a promissory note agreement dated September 27, 2016, due to FCRHA for the principal sum of $5,650,000. The loan bears interest at 2% per annum on the outstanding principal. The loan matures on October 1, 2051, at which time principal and accrued interest are due. Although the principal and interest on the loan are deferred, the loan is a cash flow loan, which means that, should there be surplus cash, as defined, it will be applied first to accrued interest and then to the principal. The annual loan payments made from available surplus cash will be paid from only 50% of surplus cash. | 5,650,000 |

9. Notes and Mortgages Payable (continued)

CRS Fountain Place

| | |
|---|---|
| On October 1, 2012, CRS Fountain Place refinanced its mortgage with HUD under Section 223(a)(7) of the National Housing Act. The principal amount of the new loan was for $6,239,400, is insured by FHA and is collateralized by a deed of trust on the rental property. The note bears interest at the rate of 2.80% per annum. Principal and interest are payable by the Organization in monthly installments of $23,321 through maturity on November 1, 2047. | |
| Under agreements with the mortgage lender and FHA, the Organization is required to make monthly escrow deposits for taxes, insurance and replacement of project assets, and is subject to restrictions as to operating policies, rental charges, operating expenditures and cash distributions. | |
| The liability of CRS Fountain Place under this mortgage note is limited to the underlying value of the real estate collateral, plus other amounts deposited with the lender. The mortgage is also secured by an assignment of rents. | $ 5,604,715 |
| **CRS Petersburg** | |
| On November 29, 2017, CRS Petersburg financed its mortgage with a loan from Grandbridge Real Estate Capital LLC. The note has a principal balance of $5,550,000, and is due in monthly installments of $27,989, including interest at 4.46% per annum, payable through December 2032. The note is secured by a deed of trust on the property located in Petersburg, Virginia. The homes financed under this mortgage provide housing for low-income families, the military and special needs population. | 5,506,800 |
| **CRS McClellan** | |
| On December 23, 2016, CRS McClellan financed its mortgage with a loan from New York Community Bank in the amount of $3,835,000. The note is due in monthly installments of $17,490, including interest at 3.625% per annum, payable through January 2027. The note is secured by a deed of trust on the property located in Arizona. The homes financed under this mortgage provide housing for low-income families, the military and special needs population. | 3,732,158 |
| **CRS Peoria** | |
| CRS Peoria entered into a note payable agreement with New York Community Bank in December 2015. The original principal balance of the note is $3,300,000. Interest is charged at a fixed rate of 4.125% per annum. The loan is payable in monthly installments of $15,993, with a balloon payment due in November 2027 for the remaining balance. | 3,148,174 |

Continued

9. Notes and Mortgages Payable (continued)

| | |
|---|---|
| <u>CRS Ironwood</u> | |
| On April 26, 2017, CRS Ironwood financed its mortgage with a loan from New York Community Bank in the amount of $2,800,000. The note is due in monthly installments of $13,980, including interest at 4.375% per annum, payable through June 2047. The note is secured by deed of trust on the property located in Arizona. The homes provide housing for low-income families, the military and special needs population. | $ 2,753,821 |
| <u>CRS Somerset</u> | |
| CRS Somerset entered into a note payable agreement with New York Community Bank on December 30, 2013. The original principal balance of the note is $2,600,000. Interest is charged at a fixed rate of 3.875% per annum. The loan is payable in 120 monthly installments of $12,226, with a balloon payment due in January 2024 for the remaining balance. In conjunction with the new debt agreement, the Organization was required to establish certain reserves and escrow accounts. | 2,378,974 |
| <u>CRS Countryside</u> | |
| On February 28, 2017, CRS Countryside financed its mortgage with a loan from BB&T in the amount of $1,170,000. The note bears interest at the adjusted LIBOR rate per annum which was 4.35% as of June 30, 2018. Principal and interest are payable by the Organization in monthly installments of $5,587 through maturity on February 28, 2024. The lease is secured by assignment of leases and rents. The homes under this mortgage provide housing for low-income families, the military and special needs population. | 1,136,595 |
| <u>CRS Palms</u> | |
| CRS Palms entered into a note payable agreement with Weststar Pacific Mortgage on February 26, 2016. The original principal balance of the note is $1,120,000. Interest is charged at a fixed rate of 5% per annum. The loan is payable in 26 monthly installments of $4,667, with a balloon payment due in February 2019 for the remaining balance. | 1,107,898 |
| <u>CRS Kansas</u> | |
| CRS Kansas entered into a note payable agreement with the prior owner of its rental property on December 14, 1995. The principal balance of $500,000 is due and payable in annual interest and principal payments based on 75% of annual surplus cash, as allowed under the trust indenture and lease agreement. In the event there is no surplus cash to cover the annual accrued interest, the interest is forgiven. Such interest is calculated based on 8.5% of the outstanding principal balance. As of | |

Continued

9. Notes and Mortgages Payable (continued)

CRS Kansas (continued)

| | |
|---|---|
| June 30, 2018, there was no surplus cash to make payments and no interest was accrued. The note matures on November 30, 2025, when any outstanding principal and unpaid accrued interest are due. | 500,000 |
| Total Notes and Mortgages Payable | 60,477,439 |
| Less: Unamortized Debt Issuance Costs | (591,322) |
| Mortgages Payable, Net | $ 59,886,117 |

Total interest expense, including the amortization of the debt issuance costs, incurred related to these mortgages was $2,479,089 for the year ended June 30, 2018.

Aggregate annual maturities of notes and mortgages payable are as follows:

| For the Year Ending June 30, | |
|---|---|
| 2019 | $ 2,811,280 |
| 2020 | 1,475,539 |
| 2021 | 10,787,355 |
| 2022 | 1,077,254 |
| 2023 | 1,093,816 |
| Thereafter | 43,232,195 |
| Total | $ 60,477,439 |

10. Fair Value Measurement

The following table summarizes the Organization's assets and liabilities measured at fair value on a recurring basis as of June 30, 2018, aggregated by the fair value hierarchy level with which those measurements were made:

| | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets: | | | | |
| Investments: | | | | |
| Equity securities: | | | | |
| Technology | $ 7,674,157 | $ 7,674,157 | $ - | $ - |
| Consumer goods | 6,885,177 | 6,885,177 | - | - |
| Financial | 4,963,888 | 4,963,888 | - | - |

10. Fair Value Measurement (continued)

| *(continued)* | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets (continued): | | | | |
| Investments: (continued) | | | | |
| Equity securities: (continued) | | | | |
| Industrial goods | $ 4,305,729 | $ 4,305,729 | $ - | $ - |
| Healthcare | 3,863,467 | 3,863,467 | - | - |
| Utilities | 1,691,737 | 1,691,737 | - | - |
| Basic materials | 1,452,310 | 1,452,310 | - | - |
| Other | 660,282 | 660,282 | - | - |
| Mutual funds: | | | | |
| *Fixed-income funds* | | | | |
| Intermediate government bonds | 7,366,158 | 7,366,158 | - | - |
| Intermediate term bonds | 1,990,663 | 1,990,663 | - | - |
| High-yield bonds | 1,860,404 | 1,860,404 | - | - |
| Short-term bonds | 1,071,014 | 1,071,014 | - | - |
| Emerging markets bonds | 517,769 | 517,769 | - | - |
| *Equity funds* | | | | |
| Large growth | 4,379,287 | 4,379,287 | - | - |
| Large blend | 2,661,799 | 2,661,799 | - | - |
| Small value | 792,595 | 792,595 | - | - |
| Moderate allocation | 25,620 | 25,620 | - | - |
| *Foreign equity funds* | | | | |
| Large blend | 4,418,655 | 4,418,655 | - | - |
| Small/mid value | 2,943,071 | 2,943,071 | - | - |
| Diversified emerging markets | 1,050,376 | 1,050,376 | - | - |
| *Foreign fixed-income funds* | | | | |
| World bonds | 788,900 | 788,900 | - | - |
| Fixed-income securities: | | | | |
| Corporate bonds | 8,573,655 | - | 8,573,655 | - |
| Government bonds | 7,946,798 | 7,946,798 | - | - |
| U.S. government agency-backed debt securities | 1,308,296 | 1,308,296 | - | - |
| Municipal bonds | 546,504 | - | 546,504 | - |
| Foreign bonds | 166,707 | - | 166,707 | - |
| Exchange-traded funds: | | | | |
| Large blend funds | 3,063,710 | 3,063,710 | - | - |
| Small blend | 1,122,647 | 1,122,647 | - | - |
| Mid-cap growth | 1,066,947 | 1,066,947 | - | - |

**Continued**

10. Fair Value Measurement (continued)

| *(continued)* | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets (continued): | | | | |
| Exchange-traded funds: (continued) | | | | |
| Mid-cap value | $ 1,008,279 | $ 1,008,279 | $ - | $ - |
| Real estate investment trusts | 596,623 | 596,623 | - | - |
| Intermediate-term bond funds | 426,769 | 426,769 | - | - |
| Mid-cap blend | 201,987 | 201,987 | - | - |
| Large growth | 191,555 | 191,555 | - | - |
| Large value | 176,429 | 176,429 | - | - |
| Foreign large blend | 138,310 | 138,310 | - | - |
| High-yield bond funds | 132,470 | 132,470 | - | - |
| Corporate bonds | 113,146 | 113,146 | - | - |
| Diversified emerging markets | 96,258 | 96,258 | - | - |
| Emerging market bond funds | 89,046 | 89,046 | - | - |
| Long-term government bonds | 69,912 | 69,912 | - | - |
| World bonds | 56,000 | 56,000 | - | - |
| Global real estate funds | 51,283 | 51,283 | - | - |
| Commodities | 44,357 | 44,357 | - | - |
| Money market funds | 110,394 | 110,394 | - | - |
| Contributions receivable in a charitable remainder unitrust (CRUT) | 95,044 | - | - | 95,044 |
| Cash surrender value of life insurance policies | 1,687,270 | - | 1,687,270 | - |
| Trust accounts: | | | | |
| Money market funds | 136,037 | 136,037 | - | - |
| Interest rate swap contract | 192,612 | - | 192,612 | - |
| Total Assets | $ 90,772,103 | $ 79,510,311 | $ 11,166,748 | $ 95,044 |

The Organization used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

*Equity securities, mutual funds and exchange-traded funds* – These are valued at quoted market price for identical assets in active markets.

10. Fair Value Measurement (continued)

*Fixed-income securities* – For investments in actively traded government bonds and U.S government agency-backed debt securities, fair value is determined by a computerized pricing service for which daily prices are available. Investments in actively traded government bonds are categorized as Level 1 investments. For corporate and municipal bonds that are not as actively traded, estimated fair value is determined by utilizing a yield-based matrix system. These corporate and municipal bonds are categorized as Level 2 investments.

*Money market funds* – Money market funds are valued at the net asset value of shares held, as reported in the active market in which the individual security or fund is traded.

*Contribution receivable in a CRUT* – The CRUT is revalued annually by calculating the present value based on the current appraised value of the investments, the donor's life expectancy and a discount rate of 6.5%.

*Cash surrender value of life insurance policies* – Cash surrender value of the life insurance policies is based upon the reserve value, which is the face amount of the contracts discounted at a specific rate of interest according to the insured's life expectancy.

*Interest rate swap contract* – This is valued using an industry-recognized model that discounts the cash flows at each coupon adjustment date.

A roll forward of the fair value measurement using unobservable inputs (Level 3) was as follows as of June 30, 2018:

| | |
|---|---|
| Balance, July 1, 2017 | $ 96,677 |
| Change in value | (1,633) |
| Balance, June 30, 2018 | $ 95,044 |

11. Net Assets

**Board-Designated Unrestricted Net Assets**

The Organization's Board of Directors has designated certain amounts to serve as a quasi-endowment, and the funds are to be invested and serve as a source of undesignated income to support the general work and mission of CRSC and its affiliates. As of June 30, 2018, board-designated unrestricted net assets, including the accumulated investment earnings, totaled $59,875,243.

Continued

11. Net Assets (continued)

**Temporarily Restricted Net Assets**

As of June 30, 2018, net assets were restricted for use as follows:

| | |
|---|---|
| Endowment earnings restricted for use in American Indian programs | $ 12,543,115 |
| International programs | 354,790 |
| Time restrictions | 172,088 |
| CRUT | 95,044 |
| Total Temporarily Restricted Net Assets | $ 13,165,037 |

**Permanently Restricted Net Assets**

Permanently restricted net assets consist of a donor-restricted endowments in which the principal is invested in perpetuity and the income is expendable to support the Organization's American Indian programs. Permanently restricted net assets were $16,547,477 as of June 30, 2018.

12. Endowment Funds

The Organization's endowment funds consist of a donor-restricted endowment fund established to support the Organization's American Indian programs, and a board-designated endowment fund or quasi-endowment created in 2012 to support the general work and mission of CRSC and its affiliates. Net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law and Spending Policy**

The Organization has interpreted the Uniform Prudent Management of Institution Funds Act (UPMIFA) not to limit spending from the endowment fund to interest and dividends earned, but to allow the Organization to elect to spend a portion of the overall value of the fund after considering the factors listed below and keeping in mind the permanent duration of the fund. To date, the Organization has not made such an election. Instead, the Organization has taken a very prudent and conservative approach and pursued a spending policy not to annually release more than the interest and dividend and royalty income above the original value of the gifts donated to start the permanent endowment and the original value of subsequent gifts to the permanent endowment. The resulting realized and unrealized gains and losses are included in the temporarily restricted net assets of the endowment portfolio.

Section 55-268.14(A) of Virginia's UPMIFA eliminates the concept of historic dollar value and instead provides that an institution may adopt a spending policy that will preserve the purchasing power of "principal" while distributing as "income" a reasonable amount in light of investment performance and general economic conditions.

Continued

12. Endowment Funds (continued)

**Interpretation of Relevant Law and Spending Policy (continued)**

The statute lists a number of factors to be considered in adopting a spending policy:

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

**Funds with Deficiencies**

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2018.

**Return Objectives and Risk Parameters**

The Organization has adopted investment and spending policies for its investments that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The primary objective of the endowment fund is to preserve and protect the assets by providing a balance between capital appreciation, preservation of capital and current income. This is a long-term goal designed to maximize returns without undue risk.

**Strategies Employed for Achieving Objectives**

The endowment fund has a target range of 60% equity and 40% fixed income. A positive return is expected over the time of investment, although there may be periods with negative returns.

**Endowment Composition and Activity**

As of June 30, 2018, the Organization's endowment had the following net asset composition:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted | $ - | $ 12,543,115 | $ 16,547,477 | $ 29,090,592 |
| Board-designated quasi-endowment | 59,875,243 | - | - | 59,875,243 |
| Total Endowment Funds | $ 59,875,243 | $ 12,543,115 | $ 16,547,477 | $ 88,965,835 |

12. Endowment Funds (continued)

**Endowment Composition and Activity (continued)**

Changes in endowment net assets were as follows for the year ended June 30, 2018:

| | Board-Designated Quasi-Endowment | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, Beginning of year | $ 42,039,213 | $ 11,204,808 | $ 16,547,477 | $ 69,791,498 |
| Contributions | 19,438,551 | - | - | 19,438,551 |
| Investment return: | | | | |
| Interest and dividends | 1,087,757 | 764,466 | - | 1,852,223 |
| Net appreciation (realized and unrealized) | 367,360 | 1,098,433 | - | 1,465,793 |
| Total Investment Return | 1,455,117 | 1,862,899 | - | 3,318,016 |
| Royalties | - | 1,454,275 | - | 1,454,275 |
| Appropriations and investment fees | (3,057,638) | (1,978,867) | - | (5,036,505) |
| Endowment Net Assets, End of Year | $ 59,875,243 | $ 12,543,115 | $ 16,547,477 | $ 88,965,835 |

| | |
|---|---|
| The portion of perpetual endowment funds that are subject to a purpose restriction under UPMIFA, classified as temporarily restricted net assets | $ 12,543,115 |
| The portion of perpetual endowment funds that are required to be retained permanently, either by explicit donor stipulation or by UPMIFA, classified as permanently restricted net assets | $ 16,547,477 |

13. Risks and Contingencies

**Financial Risk**

The Organization invests in a professionally managed portfolio that contains equity securities, mutual funds, exchange-traded funds, fixed-income securities and money market funds. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

**Continued**

13. Risks and Contingencies (continued)

**Concentration of Credit Risk**

The Organization maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balance may exceed, at times, the Federal Deposit Insurance Corporation (FDIC) insured limit of $250,000 per depositor per institution. As of June 30, 2018, the Organization had cash and cash equivalents at several financial institutions, which exceeded the maximum limit insured by the FDIC in total by approximately $4,612,000. The Organization monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents. The Organization also maintains its trust accounts in one financial institution. The trust investments are not insured by the FDIC or by any other federal government agency.

**Grant Audits**

The Organization received a number of grants from various local, state and federal governmental agencies. These grants are subject to audit by the corresponding oversight agency. Based on historical experience and results of prior audits, which have been completed through fiscal year ended June 30, 2017, the Organization's management believes costs disallowed and claims remitted, if any, would not materially affect the financial position, changes in net assets or cash flows of the Organizations.

**Litigation**

In the ordinary course of business, the Organization is involved in lawsuits, claims and assessments. In the opinion of management, no loss contingencies are required to be recorded in the accompanying consolidated financial statements.

14. Pension Plan

Employees of the Organization are eligible to participate in a 401(k) plan sponsored by CRSC after 60 days of service. Under the terms of the defined contribution plan, eligible employees may elect to contribute up to the federal tax limitation.

The plan has the following employee deferral and matching provisions:

| Elective Deferral | Employer Matching |
|---|---|
| 1% | 150% of employee contribution |
| 1% – 3% | 100% of employee contribution |
| 3% – 6% | 50% of employee contribution |

Employees are immediately vested in employer contributions. During the year ended June 30, 2018, retirement expense related to the plan was $98,573, which is included in wages and benefits in the accompanying consolidated statement of functional expenses.

**Continued**

15. Taxes

**Income Taxes**

CRSC has received a group exemption determination from the Internal Revenue Service, under Section 501(c)(3), which affords the housing affiliates on CRSC's roster the same income tax-exempt status as CRSC. CRSI, AHA, RS and BWA are exempt under Section 501(c)(3) of the Internal Revenue Code (the IRC). CRS/21 is exempt under Section 509(a)(3) of the IRC. The Organization is exempt from federal taxes on income other than net unrelated business income. No provision for federal or state income taxes is required as of June 30, 2018, as the Organization had no net unrelated business income.

The Organization follows the authoritative guidance relating to accounting for uncertainty in income taxes included in Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's consolidated financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Organization performed an evaluation of uncertainty in income taxes for the year ended June 30, 2018, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. As of June 30, 2018, the statute of limitations for tax years ended June 30, 2015 and after remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns. It is the Organization's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense.

**Real Estate Tax Exemptions**

Houses owned by CRS Virginia for charitable purposes were exempt from real estate taxation in Fairfax County, Virginia.

16. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 27, 2018, the date the consolidated financial statements were available to be issued. There were no subsequent events identified that require recognition or disclosure in these consolidated financial statements.

## SUPPLEMENTAL INFORMATION

**CHRISTIAN RELIEF SERVICES CHARITIES, INC. AND AFFILIATES**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**
**June 30, 2018**

| | CRSC | CRSI | AHA | RS | BWA | Consolidated CRS Virginia | CRS/21 | CRSC Residential | Housing Preservation | Mountain Lakes | CRS Kansas | CRS Triangle | CRS Scottsdale | CRS Cambridge | CRS Fountain Place | CRS Peoria | CRS Somerset | CRS Palms | CRS McClellan | CRS Countryside | CRS Ironwood | CRS Petersburg | Huntington Gardens | Total | Eliminations | Consolidated Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cash and cash equivalents | $ 421,277 | $ 609,777 | $ 27,947 | $ 400,943 | $ 41,706 | $ 537,209 | $ 3,282,780 | $ 1,913,109 | $ 107,808 | $ 19,658 | $ 76,661 | $ 13,780 | $ 163,144 | $ 1,393,006 | $ 282,954 | $ 237,015 | $ 37,507 | $ 21,424 | $ 8,928 | $ 56,901 | $ 9,110 | $ 76,983 | $ 105,880 | $ 9,739,627 | $ - | $ 9,739,627 |
| Grants and contributions receivable, net | - | 18,291 | 14,933 | 92,133 | 52,038 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 177,395 | - | 177,395 |
| Other receivables | 701,818 | 70,829 | - | 2,907 | - | 49,224 | 95,044 | 287,711 | - | - | 2,403 | 5,386 | 1,580 | - | 2,417 | 9,321 | 28,049 | 1,938 | 3,152 | 7,060 | 5,151 | 20,449 | 10,000 | 1,294,439 | (188,002) | 1,106,437 |
| Prepaid expenses and other assets | 80,973 | 15,214 | - | 775 | - | 89,328 | - | 65,924 | - | - | 19,293 | 22,088 | 4,353 | - | 29,288 | 7,861 | 16,960 | 17,269 | 30,866 | 28,069 | 11,492 | 23,237 | 23,854 | 462,990 | - | 462,990 |
| Due from affiliates | 421,204 | 43,949 | 40,115 | 113 | 119,256 | - | 11,780,644 | 11,927,927 | 167,648 | 9 | - | - | - | - | - | - | - | - | - | - | - | - | - | 24,500,865 | (24,500,865) | - |
| Inventory | - | 149,895 | - | 371,234 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 521,129 | - | 521,129 |
| Investments | 95,714 | - | - | 1,585,545 | 536,524 | - | 86,110,753 | 332,604 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 88,661,140 | - | 88,661,140 |
| Investments in operating entities | - | - | - | - | - | - | - | 2,505,846 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,505,846 | - | 2,505,846 |
| Cash surrender value of life insurance policies | 1,687,270 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,687,270 | - | 1,687,270 |
| Restricted investments for tenant security deposits | - | - | - | - | - | 43,248 | - | - | - | - | 46,742 | 222,298 | - | - | 128,241 | 28,717 | 31,045 | 4,197 | 20,961 | - | 15,675 | - | 43,248 | 541,124 | - | 541,124 |
| Restricted deposits and funded reserves | - | 335 | - | - | - | 431,085 | - | - | - | - | - | 468,131 | - | - | 541,285 | 4,756 | 39,605 | - | 21,076 | - | 57,801 | 162,197 | 405,619 | 1,726,271 | - | 1,726,271 |
| Trust accounts | - | - | - | - | - | - | - | - | - | - | 132,731 | - | 3,306 | - | - | - | - | - | - | - | - | - | - | 136,037 | - | 136,037 |
| Interest rate swap contract | - | - | - | - | - | - | - | - | - | - | - | 192,612 | - | - | - | - | - | - | - | - | - | - | - | 192,612 | - | 192,612 |
| Notes receivable | - | - | - | - | - | - | - | - | 3,777,513 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 3,777,513 | - | 3,777,513 |
| Property and equipment, net | 631,592 | 43,002 | - | 170,136 | - | 33,810,564 | - | 2,794,414 | - | - | 2,203,934 | 10,405,426 | 106,394 | - | 2,628,092 | 2,720,247 | 3,923,546 | 3,137,219 | 6,243,343 | 2,058,501 | 4,502,312 | 7,522,075 | 18,498,508 | 82,900,797 | (553,691) | 82,347,106 |
| TOTAL ASSETS | $ 4,039,848 | $ 951,292 | $ 82,995 | $ 2,623,786 | $ 749,524 | $ 34,960,658 | $ 101,269,221 | $ 19,827,535 | $ 4,052,969 | $ 19,667 | $ 2,481,764 | $ 11,329,721 | $ 278,777 | $ 1,393,006 | $ 3,612,277 | $ 3,007,917 | $ 4,076,712 | $ 3,182,047 | $ 6,328,326 | $ 2,150,531 | $ 4,601,541 | $ 7,804,941 | $ 19,087,109 | $ 218,825,055 | $ (25,242,558) | $ 193,582,497 |
| LIABILITIES AND NET ASSETS | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Liabilities | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Accounts payable and accrued expenses | $ 59,337 | $ 175,225 | $ 3,593 | $ 123,422 | $ 3,171 | $ 74,156 | $ 800 | $ 29,404 | $ - | $ - | $ 63,991 | $ 150,992 | $ 1,103 | $ 23,748 | $ 44,930 | $ 1,009 | $ 9,266 | $ 5,787 | $ 159,077 | $ 7,488 | $ 22,204 | $ 131,320 | $ 28,514 | $ 1,090,023 | $ - | $ 1,090,023 |
| Accrued interest | - | - | - | - | - | 271,387 | - | 19,612 | - | - | - | 21,149 | - | 188,002 | 13,078 | - | - | - | - | - | 42,001 | - | 271,387 | 555,229 | (188,002) | 367,227 |
| Deferred revenue | - | - | - | 26,806 | - | - | - | - | - | - | - | 10,278 | - | - | - | - | - | - | - | - | - | - | - | 37,084 | - | 37,084 |
| Lines of credit payable | - | 650,000 | - | - | - | - | 12,207,542 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 12,857,542 | - | 12,857,542 |
| Notes and mortgages payable, net of unamortized financing costs | - | - | - | - | - | 23,998,142 | - | - | - | - | 500,000 | 10,257,860 | - | - | 5,533,014 | 3,076,435 | 2,378,974 | 1,107,898 | 3,732,158 | 1,136,595 | 2,753,821 | 5,411,220 | 17,867,760 | 59,886,117 | - | 59,886,117 |
| Capital lease obligation | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Advance payments for rent | - | - | - | - | - | 13,795 | - | - | - | - | 10,044 | 5,803 | 1,507 | - | 10,084 | 9,551 | 25,085 | 916 | 1,517 | 1,106 | 1,519 | 8,057 | 6,927 | 88,984 | - | 88,984 |
| Deposits and funds held for others | - | 18,254 | - | - | - | 24,500 | - | - | - | - | 31,523 | 201,784 | 2,667 | - | 54,369 | 18,182 | 27,563 | 5,900 | - | 8,930 | 13,925 | - | 24,500 | 407,597 | - | 407,597 |
| Due to affiliates | - | 295,757 | 32,360 | 109,346 | 69,913 | 8,570,696 | - | - | - | - | 2,951,694 | 67,318 | 512 | 1,039,973 | 17,267 | 21,763 | 1,877,361 | 1,880,616 | 2,553,741 | 764,695 | 1,862,286 | 2,385,567 | 2,134,076 | 24,500,865 | (24,500,865) | - |
| TOTAL LIABILITIES | 59,337 | 1,139,236 | 35,953 | 259,574 | 73,084 | 32,952,676 | 12,208,342 | 49,016 | - | - | 3,557,252 | 10,715,184 | 5,789 | 1,251,723 | 5,672,742 | 3,126,940 | 4,318,249 | 3,001,117 | 6,446,493 | 1,918,814 | 4,695,756 | 7,936,164 | 20,333,164 | 99,423,441 | (24,688,867) | 74,734,574 |
| Net Assets | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Unrestricted | 3,980,511 | (200,975) | 32,156 | 2,272,079 | 269,612 | 2,007,982 | 59,875,243 | 19,778,519 | 4,052,969 | 19,667 | (1,075,488) | 614,537 | 272,988 | 141,283 | (2,060,465) | (119,023) | (241,537) | 180,930 | (118,167) | 231,717 | (94,215) | (131,223) | (1,246,055) | 89,689,100 | (553,691) | 89,135,409 |
| Temporarily restricted | - | 13,031 | 14,886 | 92,133 | 406,828 | - | 12,638,159 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 13,165,037 | - | 13,165,037 |
| Permanently restricted | - | - | - | - | - | - | 16,547,477 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 16,547,477 | - | 16,547,477 |
| TOTAL NET ASSETS (DEFICIT) | 3,980,511 | (187,944) | 47,042 | 2,364,212 | 676,440 | 2,007,982 | 89,060,879 | 19,778,519 | 4,052,969 | 19,667 | (1,075,488) | 614,537 | 272,988 | 141,283 | (2,060,465) | (119,023) | (241,537) | 180,930 | (118,167) | 231,717 | (94,215) | (131,223) | (1,246,055) | 119,401,614 | (553,691) | 118,847,923 |
| TOTAL LIABILITIES AND NET ASSETS | $ 4,039,848 | $ 951,292 | $ 82,995 | $ 2,623,786 | $ 749,524 | $ 34,960,658 | $ 101,269,221 | $ 19,827,535 | $ 4,052,969 | $ 19,667 | $ 2,481,764 | $ 11,329,721 | $ 278,777 | $ 1,393,006 | $ 3,612,277 | $ 3,007,917 | $ 4,076,712 | $ 3,182,047 | $ 6,328,326 | $ 2,150,531 | $ 4,601,541 | $ 7,804,941 | $ 19,087,109 | $ 218,825,055 | $ (25,242,558) | $ 193,582,497 |

**CHRISTIAN RELIEF SERVICES CHARITIES, INC. AND AFFILIATES**

**CONSOLIDATING STATEMENT OF ACTIVITIES**
**For the Year Ended June 30, 2018**

| | CRSC | CRSI | AHA | RS | BWA | Consolidated CRS Virginia | CRS/21 | CRSC Residential | Housing Preservation |
|---|---|---|---|---|---|---|---|---|---|
| OPERATING REVENUE AND SUPPORT | | | | | | | | | |
| Housing rental and related income | $ 151,800 | $ 214,174 | $ - | $ - | $ - | $ 3,777,170 | $ - | $ 122,870 | $ - |
| Noncash contributions | - | 17,303,193 | - | 1,431,343 | - | - | - | - | - |
| Cash contributions | 1,394 | 3,926,063 | 27,778 | 642,757 | 65,098 | 22,657 | - | - | - |
| Other income | 110,807 | 18,693 | - | 8,143 | - | 89,716 | - | 1,166,854 | 62,337 |
| Grants from government agencies | 106,143 | 357,462 | - | 54,936 | - | 446,598 | - | - | - |
| Royalties | - | - | - | - | - | - | 1,454,275 | - | - |
| Wills and bequests | - | 1,217,424 | - | 308,698 | - | - | - | - | - |
| Workplace campaign contributions | - | 17,588 | 27,715 | 101,047 | 47,553 | - | - | - | - |
| Interest and dividend income | 2,285 | 658 | 25 | 33,457 | 11,311 | 790 | 1,852,223 | 147,970 | - |
| Noncash contributions from affiliates | - | - | 590,125 | 916,817 | 15,790,668 | - | - | - | - |
| Cash contributions from affiliates | 1,454,781 | 3,576,558 | 240,000 | 1,800,000 | 240,000 | - | 19,438,551 | 619,004 | - |
| Donated housing | - | 697,200 | - | - | - | - | - | - | - |
| Net realized and unrealized gains | 472 | - | - | 105,781 | 35,741 | - | 1,464,160 | 13,600 | - |
| TOTAL OPERATING REVENUE AND SUPPORT | 1,827,682 | 27,329,013 | 885,643 | 5,402,979 | 16,190,371 | 4,336,931 | 24,209,209 | 2,070,298 | 62,337 |
| OPERATING EXPENSES | | | | | | | | | |
| Program services | 596,242 | 22,583,266 | 889,780 | 4,664,547 | 16,197,110 | 4,426,666 | 4,450,000 | 640,378 | 5,543 |
| Management and general | 1,306,786 | 136,187 | 12,898 | 82,699 | 21,399 | 119,920 | 586,505 | 13,195 | 435 |
| Fundraising | 97,946 | 3,774,057 | 7,350 | 59,564 | 11,175 | - | - | - | - |
| TOTAL OPERATING EXPENSES | 2,000,974 | 26,493,510 | 910,028 | 4,806,810 | 16,229,684 | 4,546,586 | 5,036,505 | 653,573 | 5,978 |
| CHANGE IN NET ASSETS FROM OPERATIONS | (173,292) | 835,503 | (24,385) | 596,169 | (39,313) | (209,655) | 19,172,704 | 1,416,725 | 56,359 |
| NONOPERATING ACTIVITIES | | | | | | | | | |
| Realized gain on sale of properties | - | - | - | - | - | 162,555 | - | 254,290 | - |
| Realized gain on sale of investments in operating entities | - | - | - | - | - | - | - | 3,160,883 | - |
| CHANGE IN NET ASSETS | (173,292) | 835,503 | (24,385) | 596,169 | (39,313) | (47,100) | 19,172,704 | 4,831,898 | 56,359 |
| NET ASSETS (DEFICIT), BEGINNING OF YEAR | 4,153,803 | (1,023,447) | 71,427 | 1,768,043 | 715,753 | 2,055,082 | 69,888,175 | 14,946,621 | 3,996,610 |
| NET ASSETS (DEFICIT), END OF YEAR | $ 3,980,511 | $ (187,944) | $ 47,042 | $ 2,364,212 | $ 676,440 | $ 2,007,982 | $ 89,060,879 | $ 19,778,519 | $ 4,052,969 |

| | Mountain Lakes | CRS Kansas | CRS Triangle | CRS Scottsdale | CRS Cambridge | CRS Fountain Place | CRS Peoria | CRS Somerset | CRS Palms |
|---|---|---|---|---|---|---|---|---|---|
| OPERATING REVENUE AND SUPPORT | | | | | | | | | |
| Housing rental and related income | $ 242,034 | $ 1,085,825 | $ 3,623,208 | $ 140,368 | $ 1,980,355 | $ 1,433,525 | $ 840,425 | $ 785,604 | $ 471,664 |
| Noncash contributions | - | - | - | - | - | - | - | - | - |
| Cash contributions | - | - | - | - | - | - | - | - | - |
| Other income | 8,982 | 34,924 | 594,969 | 8,796 | 171,666 | 136,163 | 33,388 | 90,169 | 14,141 |
| Grants from government agencies | - | - | - | - | - | - | - | - | - |
| Royalties | - | - | - | - | - | - | - | - | - |
| Wills and bequests | - | - | - | - | - | - | - | - | - |
| Workplace campaign contributions | - | - | - | - | - | - | - | - | - |
| Interest and dividend income | 1 | 21,296 | 816 | - | 156 | 230 | 9 | - | - |
| Noncash contributions from affiliates | - | - | - | - | - | - | - | - | - |
| Cash contributions from affiliates | 315 | 546 | 168 | 21 | 588 | 420 | 315 | 777 | - |
| Donated housing | - | - | - | - | - | - | - | - | - |
| Net realized and unrealized gains | - | - | - | - | - | - | - | - | - |
| TOTAL OPERATING REVENUE AND SUPPORT | 251,332 | 1,142,591 | 4,219,161 | 149,185 | 2,152,765 | 1,570,338 | 874,137 | 876,550 | 485,805 |
| OPERATING EXPENSES | | | | | | | | | |
| Program services | 3,162,872 | 1,156,582 | 3,503,987 | 60,547 | 18,617,541 | 1,158,242 | 819,185 | 874,253 | 425,381 |
| Management and general | - | - | - | - | - | - | - | - | - |
| Fundraising | - | - | - | - | - | - | - | - | - |
| TOTAL OPERATING EXPENSES | 3,162,872 | 1,156,582 | 3,503,987 | 60,547 | 18,617,541 | 1,158,242 | 819,185 | 874,253 | 425,381 |
| CHANGE IN NET ASSETS FROM OPERATIONS | (2,911,540) | (13,991) | 715,174 | 88,638 | (16,464,776) | 412,096 | 54,952 | 2,297 | 60,424 |
| NONOPERATING ACTIVITIES | | | | | | | | | |
| Realized gain on sale of properties | 2,639,426 | - | - | - | 20,322,775 | - | - | | - |
| Realized gain on sale of investments in operating entities | - | - | - | - | - | - | - | | - |
| CHANGE IN NET ASSETS | (272,114) | (13,991) | 715,174 | 88,638 | 3,857,999 | 412,096 | 54,952 | 2,297 | 60,424 |
| NET ASSETS (DEFICIT), BEGINNING OF YEAR | 291,781 | (1,061,497) | (100,637) | 184,350 | (3,716,716) | (2,472,561) | (173,975) | (243,834) | 120,506 |
| NET ASSETS (DEFICIT), END OF YEAR | $ 19,667 | $ (1,075,488) | $ 614,537 | $ 272,988 | $ 141,283 | $ (2,060,465) | $ (119,023) | $ (241,537) | $ 180,930 |

| | CRS McClellan | CRS Countryside | CRS Ironwood | CRS Petersburg | Total | Eliminations | Consolidated Total |
|---|---|---|---|---|---|---|---|
| OPERATING REVENUE AND SUPPORT | | | | | | | |
| Housing rental and related income | $ 868,461 | $ 500,449 | $ 562,770 | $ 801,164 | $ 17,601,866 | $ (797,209) | $ 16,804,657 |
| Noncash contributions | - | - | - | - | 18,734,536 | - | 18,734,536 |
| Cash contributions | - | - | - | - | 4,685,747 | - | 4,685,747 |
| Other income | 67,148 | - | 38,496 | - | 2,655,392 | (695,897) | 1,959,495 |
| Grants from government agencies | - | - | - | - | 965,139 | - | 965,139 |
| Royalties | - | - | - | - | 1,454,275 | - | 1,454,275 |
| Wills and bequests | - | - | - | - | 1,526,122 | - | 1,526,122 |
| Workplace campaign contributions | - | - | - | - | 193,903 | - | 193,903 |
| Interest and dividend income | 4 | - | - | - | 2,071,231 | (131,082) | 1,940,149 |
| Noncash contributions from affiliates | - | - | - | - | 17,297,610 | (17,297,610) | - |
| Cash contributions from affiliates | 546 | - | - | - | 27,372,590 | (27,372,590) | - |
| Donated housing | - | - | - | - | 697,200 | (697,200) | - |
| Net realized and unrealized gains | - | - | - | - | 1,619,754 | - | 1,619,754 |
| TOTAL OPERATING REVENUE AND SUPPORT | 936,159 | 500,449 | 601,266 | 801,164 | 96,875,365 | (46,991,588) | 49,883,777 |
| OPERATING EXPENSES | | | | | | | |
| Program services | 1,040,483 | 481,151 | 728,542 | 932,387 | 87,414,685 | (47,949,841) | 39,464,844 |
| Management and general | - | - | - | - | 2,280,024 | | 2,280,024 |
| Fundraising | - | - | - | - | 3,950,092 | - | 3,950,092 |
| TOTAL OPERATING EXPENSES | 1,040,483 | 481,151 | 728,542 | 932,387 | 93,644,801 | (47,949,841) | 45,694,960 |
| CHANGE IN NET ASSETS FROM OPERATIONS | (104,324) | 19,298 | (127,276) | (131,223) | 3,230,564 | 958,253 | 4,188,817 |
| NONOPERATING ACTIVITIES | | | | | | | |
| Realized gain on sale of properties | - | - | - | - | 23,379,046 | - | 23,379,046 |
| Realized gain on sale of investments in operating entities | - | - | - | - | 3,160,883 | - | 3,160,883 |
| CHANGE IN NET ASSETS | (104,324) | 19,298 | (127,276) | (131,223) | 29,770,493 | 958,253 | 30,728,746 |
| NET ASSETS (DEFICIT), BEGINNING OF YEAR | (13,843) | 212,419 | 33,061 | - | 89,631,121 | (1,511,944) | 88,119,177 |
| NET ASSETS (DEFICIT), END OF YEAR | $ (118,167) | $ 231,717 | $ (94,215) | $ (131,223) | $ 119,401,614 | $ (553,691) | $ 118,847,923 |

Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of
Christian Relief Services Charities, Inc.
and Affiliates

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Christian Relief Services Charities, Inc. and Affiliates (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 27, 2018. Our report includes a reference to other auditors who audited the financial statements of CRS Triangle Housing Corporation, CRS Fountain Place Housing Corporation and Huntington Gardens, LLC, as described in our report on the Organization's consolidated financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Give these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Continued**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

**Purpose of This Report**

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Raffa, P.C.

**Raffa, P.C.**

Washington, DC
November 27, 2018

**REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of
Christian Relief Services Charities, Inc.
and Affiliates

**Report on Compliance for Each Major Federal Program**

We have audited Christian Relief Services Charities, Inc. and Affiliates' (collectively referred to as the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2018. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The Organization's basic consolidated financial statements include the operations of CRS Fountain Place Housing Corporation and Huntington Gardens, LLC, which received $18,317,107 in federal awards, which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2018. Our audit, described below, did not include the operations of these entities because these entities engaged other auditors to perform an audit in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance).

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

**Continued**

***Opinion on Each Major Federal Program***

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

**Report on Internal Control Over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Raffa, P.C.

**Raffa, P.C.**

Washington, DC
November 27, 2018

**CHRISTIAN RELIEF SERVICES CHARITIES, INC. AND AFFILIATES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**For the Year Ended June 30, 2018**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|---|---|---|---|---|
| **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT** | | | | |
| Supportive Housing Program (Permanent and Transitional) | 14.235 | - | $ 531,691 | $ 552,741 |
| CDBG Entitlement Grants Cluster (CFDA # 14.218 and 14.225) | | | | |
| *Pass-Through from Fairfax County:* | | | | |
| Community Development Block Grants/ Entitlement Grants | 14.218 | 1232 | - | 244,000 |
| **Total U.S. Department of Housing and Urban Development** | | | 531,691 | 796,741 |
| **U.S. DEPARTMENT OF JUSTICE** | | | | |
| Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault | 16.736 | - | - | 85,546 |
| **U.S. DEPARTMENT OF AGRICULTURE** | | | | |
| Food Distribution Program on Indian Reservations | 10.567 | - | - | 20,596 |
| 1890 Facilities Grants Program | 10.513 | - | - | 34,340 |
| **Total U.S. Department of Agriculture** | | | - | 54,936 |
| **TOTAL EXPENDITURES OF FEDERAL AWARDS** | | | $ 531,691 | $ 937,223 |

**See accompanying notes to this schedule**

**CHRISTIAN RELIEF SERVICES CHARITIES, INC. AND AFFILIATES**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**For the Year Ended June 30, 2018**

1. Summary of Significant Accounting Policies

**Basis of Accounting**

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. Consequently, amounts are recorded as expenditures when the obligations are incurred.

**Cost Principles**

Federal expenditures were recognized following the cost principles contained in OMB Circular A-122 *Cost Principles for Non Profit Organizations*, or Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). The Organization has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance as the Organization already has negotiated a provisional indirect cost rate with the federal government.

2. U.S. Department of Housing and Urban Development Loan, CFDA 14.218 – Community Development Block Grants/Entitlement Grants

For loans and loan guarantees received from a federal agency, 2 CFR Sections 200.502(b)-(d) and (j) contain the guidance on determining when federal awards are expended and considers the fact that the federal government is at risk for loans and loan guarantees until the debt is repaid. The first component of the amount to be considered in federal awards expended is new loans received during the fiscal year. If, in a subsequent year, the loan balance is still outstanding, and the federal government imposes continuing compliance requirements, the balance of the outstanding loan is considered to be part of federal expenditures for the purpose of determining the need for a single audit in that subsequent year. The Organization did not receive any new loans during the year ended June 30, 2018. However, the loan outstanding at the beginning of the year was included in the SEFA and was part of the major program selection as the loan had continuing compliance requirements. As of June 30, 2018, the outstanding balance of the loan was $244,000.

3. Reconciliation of the Schedule of Expenditures of Federal Awards to the Consolidated Statement of Activities

| | |
|---|---|
| Expenditures per schedule of expenditures of federal awards (SEFA) | $ 937,223 |
| Less: Loan included in the SEFA | (244,000) |
| Plus: State grants and contracts | 271,916 |
| Grants from Government Agencies per the Consolidated Statement of Activities | $ 965,139 |

**CHRISTIAN RELIEF SERVICES CHARITIES, INC. AND AFFILIATES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**For the Year Ended June 30, 2018**

## A. SUMMARY OF AUDITOR'S RESULTS

***Consolidated Financial Statements***

| | | | | |
|---|---|---|---|---|
| Type of auditor's report issued: | X | Unmodified | ___ | Qualified |
| | ___ | Adverse | ___ | Disclaimer |

Internal control over financial reporting:

| | | | | |
|---|---|---|---|---|
| • Material weakness(es) identified? | ___ | Yes | X | No |
| • Significant deficiency(ies) identified? | ___ | Yes | X | None Reported |
| Noncompliance material to consolidated financial statements noted? | ___ | Yes | X | No |

***Federal Awards***

| | | | | |
|---|---|---|---|---|
| Type of auditor's report issued on compliance for major programs: | X | Unmodified | ___ | Qualified |
| | ___ | Adverse | ___ | Disclaimer |

Internal control over major programs:

| | | | | |
|---|---|---|---|---|
| • Material weakness(es) identified? | ___ | Yes | X | No |
| • Significant deficiency(ies) identified? | ___ | Yes | X | None Reported |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR, 200 516(a)? | ___ | Yes | X | No |

Identification of Major Program(s):

| CFDA Number | Program Title |
|---|---|
| 14.218 | Community Development Block Grants/Entitlement Grants |

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

| | | | | |
|---|---|---|---|---|
| Auditee qualified as a low-risk auditee? | X | Yes | ___ | No |

## B. FINDINGS – CONSOLIDATED FINANCIAL STATEMENT AUDIT

None required to be reported.

## C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None required to be reported.