

The Cross-Over Ministry, Inc.

Report on Financial Statements

For the year ended June 30, 2019

The Cross-Over Ministry, Inc.

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Independent Auditor's Report

To the Board of Directors
The Cross-Over Ministry, Inc.
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of The Cross-Over Ministry, Inc. (the "Organization") which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2019, 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.

Restatement

As discussed in Note 3 to the financial statements, the Organization restated certain amounts previously recorded in its June 30, 2018 financial statements to reflect a change in the valuation methodology used in connection with donated pharmaceutical inventories. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink, appearing to read "Kimbee". The signature is written in a cursive, flowing style with a prominent dot above the first letter.

Richmond, Virginia
October 31, 2019

The Cross-Over Ministry, Inc.**Statement of Financial Position****As of June 30, 2019**

Assets**Current assets**

Cash and cash equivalents	\$ 1,059,357
Grants and other receivables, net	450,835
Medicaid receivable	20,050
Inventory	1,707,812
Other current assets	35,884
Total current assets	<u>3,273,938</u>

Property, and equipment, net

	<u>382,845</u>
Total assets	<u><u>\$ 3,656,783</u></u>

Liabilities and Net Assets**Current liabilities**

Accounts payable and accrued expenses	\$ 61,170
Accrued payroll	<u>77,094</u>
Total current liabilities	<u>138,264</u>

Net assets

Without donor restrictions	3,106,666
With donor restrictions	<u>411,853</u>
Total net assets	<u>3,518,519</u>
Total liabilities and net assets	<u><u>\$ 3,656,783</u></u>

See Notes to Financial Statements

The Cross-Over Ministry, Inc.**Statement of Activities****For the year ended June 30, 2019**

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Contributions:			
Individuals	\$ 731,631	\$ -	\$ 731,631
Grants and corporate gifts	910,888	1,052,549	1,963,437
In-kind contributions:			
General	862,068	-	862,068
Pharmaceuticals	3,644,583	-	3,644,583
Client service revenue	764,714	-	764,714
Medicaid revenue	54,469	-	54,469
	<u>6,968,353</u>	<u>1,052,549</u>	<u>8,020,902</u>
Net assets released from restrictions	<u>957,333</u>	<u>(957,333)</u>	<u>-</u>
Total support and revenue	<u>7,925,686</u>	<u>95,216</u>	<u>8,020,902</u>
Expenses			
Program services:			
Client services	<u>6,691,545</u>	<u>-</u>	<u>6,691,545</u>
Supporting services:			
Management and general	250,234	-	250,234
Fundraising	331,584	-	331,584
Total supporting services	<u>581,818</u>	<u>-</u>	<u>581,818</u>
Total expenses	<u>7,273,363</u>	<u>-</u>	<u>7,273,363</u>
Change in net assets	652,323	95,216	747,539
Net assets at beginning of year (restated)	<u>2,454,343</u>	<u>316,637</u>	<u>2,770,980</u>
Net assets at end of year	<u>\$ 3,106,666</u>	<u>\$ 411,853</u>	<u>\$ 3,518,519</u>

See Notes to Financial Statements

The Cross-Over Ministry, Inc.**Statement of Functional Expenses****For the year ended June 30, 2019**

	<u>Services</u>	<u>Supporting Services</u>		
	<u>Client Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Advertising	\$ -	\$ -	\$ 1,141	\$ 1,141
Building expenses	49,303	508	1,017	50,828
Computer maintenance	31,460	662	993	33,115
Medical supplies	225,769	-	-	225,769
Membership dues	12,457	20,325	-	32,782
Mileage and tolls	3,278	198	474	3,950
Miscellaneous	10,872	5,436	5,436	21,744
Office rent	126,122	2,712	6,780	135,614
Office supplies	25,551	1,539	3,694	30,784
Payroll processing	-	8,958	-	8,958
Postage	1,385	231	3,000	4,616
Printing	292	176	702	1,170
Professional fees	-	43,427	-	43,427
Professional liability	20,367	-	-	20,367
Program support	8,202	-	-	8,202
Public relations	-	-	339	339
Repairs and maintenance	13,641	-	-	13,641
Salaries and fringe benefits	2,004,109	120,729	289,751	2,414,589
Software expense	57,276	3,580	10,738	71,594
Staff development	21,700	1,307	3,138	26,145
Telephone	30,299	1,825	4,381	36,505
Utilities	8,922	-	-	8,922
Water and gas	5,629	-	-	5,629
Total expenses before depreciation and contributed pharmaceuticals, services and supplies	<u>2,656,634</u>	<u>211,613</u>	<u>331,584</u>	<u>3,199,831</u>
Depreciation	71,939	-	-	71,939
Contributed pharmaceuticals distributed	3,139,525	-	-	3,139,525
Contributed services and supplies	823,447	38,621	-	862,068
Total expenses	<u>\$ 6,691,545</u>	<u>\$ 250,234</u>	<u>\$ 331,584</u>	<u>\$ 7,273,363</u>

See Notes to Financial Statements

The Cross-Over Ministry, Inc.**Statement of Cash Flows****For the year ended June 30, 2019**

Cash flows from operating activities

Change in net assets	\$ 747,539
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	71,939
Increase in pharmaceutical donations received over those distributed	(505,058)
Changes in assets and liabilities:	
Grants and other receivables	(49,588)
Medicaid receivable	(20,050)
Other current assets	(3,608)
Accounts payable and accrued expenses	38,991
Accrued payroll	608

Net cash provided by operating activities 280,773

Cash flows from investing activities

Purchases of property and equipment	<u>(49,939)</u>
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Change in cash and cash equivalents 230,834

Cash and cash equivalents at beginning of year 828,523

Cash and cash equivalents at end of year \$ 1,059,357

See Notes to Financial Statements

The Cross-Over Ministry, Inc.

Notes to Financial Statements

June 30, 2019

Note 1. The Organization

The Cross-Over Ministry, Inc. (“Cross-Over” or the “Organization”) is a not-for-profit, non-stock corporation which was founded in the mid 1980’s. Cross-Over has been recognized as tax-exempt under Section 501(c)(3) of the Internal Revenue Code as notified by a determination letter from the Internal Revenue Service dated July 17, 1989. Cross-Over provides a full range of medical services and patient education to low income, uninsured individuals at two free clinics operating in downtown Richmond and western Henrico County, Virginia.

Note 2. Summary of Significant Accounting Policies

Basis of presentation:

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) that includes the accrual basis of accounting and requires the Organization to report information regarding its financial position and activities according to two classes of net assets – with and without donor restrictions, as follows:

Without donor restrictions: represents net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of management and the board of directors.

With donor restrictions: Represents net assets subject to stipulations imposed by donors and grantors. Some restrictions are temporary in nature and will be met by actions of the Organization or the passage of time. Other donor restrictions are permanent in nature and generally exist because the donor stipulated that funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Concentration and credit risk:

Financial instruments which potentially subject Cross-Over to concentrations of credit risk consist principally of cash and cash equivalents, grants and other receivables. The Organization maintains cash on deposit with two financial institutions located in the United States of America. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for up to \$250,000 of cash held in each separate FDIC insured bank and savings institution. From time to time, the Organization may have amounts on deposit in excess of the insured limits.

At June 30, 2019, approximately 86% of the Organization’s receivables were derived from four donors.

Cash and cash equivalents:

Cross-Over considers all highly liquid instruments purchased with maturities of three months or less to be cash equivalents.

The Cross-Over Ministry, Inc.

Notes to Financial Statements

June 30, 2019

Note 2. Summary of Significant Accounting Policies, Continued

Grants and other receivables:

Grants and other receivables in the accompanying statements of financial position consist of a variety of grants and contributions expected to be received within one year. The Organization uses the allowance method to account for uncollectible receivables. The allowance is based on the current status of individual accounts and management's estimate of the collectability of the outstanding balances and historical experience. At June 30, 2019, management determined an allowance for uncollectible grants and contributions was not necessary.

Inventory:

Cross-Over's inventory, comprised of pharmaceutical products, is received from in-kind donations. As required by GAAP, the inventory is recorded as an asset when received based on the "average weighted price" of such contributions as provided by the contributing organizations, which approximates fair value. See Note 3.

Property and equipment:

Property and equipment are stated at cost less accumulated depreciation. The Organization capitalizes all expenditures in excess of \$500 with a minimum useful life of two years. Major repairs and betterments are capitalized and normal maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line and accelerated methods over the estimated useful lives of the related assets, which range from 5 to 39 years. Upon retirement or sale of an asset, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations.

Compensated absences:

It is the Organization's policy to permit eligible employees to accumulate earned but unused vacation subject to certain limitations. All unused vacation pay is accrued when incurred and recorded in accrued payroll in the statements of financial position.

Revenue recognition:

Grants and contributions are recorded as net assets, with or without donor restrictions, depending on the existence and/or nature of donor-imposed restrictions. Grants and contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other grants and donor restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Client service and Medicaid revenue includes a variety of patient related revenue including contributions from patients receiving services at the health centers and, beginning January 2019, Medicaid payments. Client service and Medicaid revenue is recorded when services are provided.

The Cross-Over Ministry, Inc.

Notes to Financial Statements

June 30, 2019

Note 2. Summary of Significant Accounting Policies, Continued

In-kind contributions:

The value of contributed materials and the value of services that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individuals possessing those skills and would have been purchased if not contributed. See Notes 3 and 12 for additional discussion.

Income tax uncertainties:

As a qualified 501(c)(3) organization, Cross-Over is exempt from federal and state income taxes. Management has evaluated the Organization's tax positions and concluded that the Organization has no uncertain tax positions at June 30, 2019. The Organization's income tax returns for years since 2016 remain open to examination by tax authorities. The Organization is not currently under audit by any tax jurisdiction.

Use of estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional expense allocation:

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

Subsequent events:

Management has reviewed subsequent events through October 31, 2019, the date the financial statements were available to be issued, and has determined that no additional disclosures are necessary.

Recently issued accounting standards:

In August, 2016, the Financial Accounting Standards Board issued an accounting standards update (ASU) that required changes to the net asset classification and provide better information about a not-for-profit entity's liquidity, financial performance and cash flows. This change is intended to enhance the usefulness of a not-for-profit's financial statements. The Organization has adjusted for these changes in the presentation of the accompanying financial statements.

The Cross-Over Ministry, Inc.

Notes to Financial Statements

June 30, 2019

Note 2. Summary of Significant Accounting Policies, Continued

Recently issued accounting standards, continued:

In May 2014, the Financial Accounting Standards Board issued an ASU that replaces all existing revenue recognition guidance in current U.S. GAAP. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard achieves this through a five step process. The ASU is effective for annual reporting periods beginning after December 15, 2018. The Organization has chosen to early adopt this guidance without significant impact to the financial statements.

Note 3. Restatement

During the year ending June 30, 2019, the Organization reconsidered its previous assumptions relating to the recording of contributed pharmaceuticals ("inventory") for financial reporting purposes. In prior years, the Organization reported the last two months of contributed pharmaceuticals as inventory. Management now believes that it is more accurate to complete a physical count of contributed pharmaceuticals on hand at year end and to value such based on then current "average weighted price" as provided by the contributing organization. Management has completed a physical inventory and, with reference to reliable data of pharmaceutical contributions received and provided to its patients, has restated its opening, June 30, 2018, inventory and net assets to more accurately reflect the value of inventory on hand at June 30, 2018. The following amounts were restated in opening balances to reflect such change in methodology:

	As of June 30, 2018		
	As Previously Reported	Adjustments	As Restated
Inventory	\$ 1,123,404	\$ 79,350	\$ 1,202,754
Net assets	2,691,630	79,350	2,770,980

Note 4. Property and Equipment

Property and equipment consisted of the following at June 30, 2019:

Land	\$ 72,849
Buildings	142,267
Building improvements	484,128
Machinery and equipment	349,003
Computer equipment	354,278
Furniture and fixtures	<u>134,512</u>
	1,537,037
Less accumulated depreciation	<u>1,154,192</u>
	<u>\$ 382,845</u>

Depreciation expense was \$71,939 for the year ended June 30, 2019.

The Cross-Over Ministry, Inc.

Notes to Financial Statements

June 30, 2019

Note 5. Line of Credit

The Organization has a \$275,000 line of credit with a commercial bank which is due upon demand and subject to annual lender review and renewal. The line of credit is secured by a deed of trust on the property at Cowardin Avenue and requires monthly interest payments at the lesser of 5% or a variable interest rate equal to the bank's Prime rate. There was no outstanding balance on the line of credit at June 30, 2019.

Note 6. Net Assets with Donor Restrictions

Net assets with donor restrictions are designated for the following purposes at June 30, 2019:

Time restricted grants	\$ <u>411,853</u>
Total net assets with donor restrictions	

Note 7. Net Assets Released from Restrictions

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes were as follows during 2019:

Health and pharmacy	\$ 755,080
Time restricted grants	<u>202,253</u>
Total restricted net assets	<u>\$ 957,333</u>

Note 8. Management of Liquidity

The following represents the Organization's financial assets available to meet cash needs for general expenditures as of June 30, 2019:

Total assets at end of year	\$ 3,656,783
Less: non-financial assets	
Inventory	(1,707,812)
Other current assets	(35,884)
Property and equipment, net	<u>(382,845)</u>
Financial assets available to meet cash needs for general expenditures	<u>\$ 1,530,242</u>

The Organization manages its liquid resources to ensure that adequate funds exist to cover programs that are being conducted. The Organization prepares very detailed budgets and is active in cutting costs, when necessary, to ensure the entity remains liquid.

The Organization receives various grants with purpose or time restrictions. Because a donor or grantor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors and grantors.

The Cross-Over Ministry, Inc.

Notes to Financial Statements

June 30, 2019

Note 8. Management of Liquidity, Continued

The Organization receives a significant amount of contributed goods and services. The change in donated inventories has a significant impact on each year's change in net assets even though this has no impact on liquidity. Absent of the change in donated inventories and other non-financial assets, the financial assets available to meet cash needs for general expenditures increased by approximately \$300,000 in the year ended June 30, 2019.

As of June 30, 2019, the Organization has approximately \$1.5 million of financial assets available to meet cash needs for general expenditures through June 30, 2020 consisting of cash, cash equivalents and accounts receivable.

Note 9. Retirement Plan

The Organization sponsors a 401(k) profit sharing plan which covers all employees who complete 1,000 hours of service and one year of service, as defined in the plan document. The Organization made a matching contribution of \$7,520 during 2019.

Note 10. Lease Commitments

The Organization leases office and clinic space in Henrico County, Virginia under an operating lease. The lease term was renewed during 2019 extending the term to March 2022. The lease provides for annual inflationary adjustments in rent and in accordance with accounting principles, lease expense is recognized on a straight-line basis over the life of the lease. Deferred rent as of June 30, 2019 was \$4,276 and is included in accounts payable and accrued expenses in the statements of financial position. Rent expense for 2019 was \$130,377.

Note 11. Guarantees

Under its bylaws, the Organization has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Organization's request in such capacities. The maximum liability under these obligations is limited by the Code of Virginia. The Organization's insurance policies serve to further limit its exposure. The Organization believes that the estimated fair value of these indemnification obligations is minimal.

Note 12. In-Kind Contributions

As discussed below, the Organization receives contributed goods and services which are used to provide services to its uninsured patients. Contributed goods and services are recorded at their estimated fair value determined at the date of receipt. A summary of contributed goods and services received during the year ending June 30, 2019 is as follows:

- Pharmaceuticals – Cross-Over participates in several partnership networks which work with pharmaceutical companies to provide access to prescription, vaccinations and over-the-counter medications to the uninsured. The value of contributions received from these networks was approximately \$3.6 million during 2019 based on the "average weighted price" of such contributions as provided by the networks. See Note 3.

The Cross-Over Ministry, Inc.

Notes to Financial Statements

June 30, 2019

Note 12. In-Kind Contributions, Continued

Cross-Over also receives and distributes certain prescription medications from a donating pharmaceutical manufacturer/distributor that are specific to a patient. Cross-Over does not record any financial activity associated with these medications as such medications are donations to the individual patients, not the Organization.

Cross-Over also directly receives, at no cost, sample medications from various pharmaceutical manufacturers which it uses in the care of and distributes to its patients. Cross-Over estimates there to be no fair value to be recorded in connection with the samples.

- Professional services – Cross-Over received approximately 13,600 hours of volunteered professional services from various medical doctors (general practitioners and specialists), dentists, and nurses in the care of its patients during 2019. The value of such volunteer hours was approximately \$821,000 during 2019 based on hourly rates obtained from The Virginia Association of Free Clinics.
- Medical supplies – Cross-Over also received approximately \$40,300 of medical supplies, office furniture and equipment and computers from various donors during 2019.
- Lab and diagnostic services – Blood, tissue and other health screening and diagnostic services are provided directly to Cross-Over’s patients by two Richmond-based medical facilities. The value of contributed lab and diagnostic services provided to Cross-Over’s patients have not been included in the in-kind contributions.