

**AUDITED
CONSOLIDATED FINANCIAL STATEMENTS**

**CITY MISSION SOCIETY, INC.
AND SUBSIDIARIES**

SEPTEMBER 30, 2015

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
City Mission Society, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of City Mission Society, Inc. and Subsidiaries which comprise the statement of financial position as of September 30, 2015 and 2014, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 reasonable basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of City Mission Society, Inc. and Subsidiaries as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 17, 2016

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30,

ASSETS	2015	2014
Current assets:		
Cash	\$ 1,603,468	\$ 1,260,742
Contributions and bequests receivable	1,511,005	158,601
Current portion pledges receivable - capital campaign	168,280	-
Grants receivable	94,537	125,878
Other receivables	62,430	95,728
Related party receivable	2,467	-
Inventory	26,655	26,655
Prepaid expenses and other current assets	18,146	17,027
Total current assets	<u>3,486,988</u>	<u>1,684,631</u>
Investments	1,495,380	1,819,120
Special purpose reserve	970,137	1,128,222
Land, buildings and equipment, net	1,252,349	1,211,382
Pledges receivable - capital campaign	73,009	-
Other assets:		
Note receivable	523,600	523,600
Beneficial interest in charitable trusts	59,377	59,244
Investments in affiliate	768,956	761,461
Total other assets	<u>1,351,933</u>	<u>1,344,305</u>
	<u>\$ 8,629,796</u>	<u>\$ 7,187,660</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 283,987	\$ 181,060
Accrued expenses	155,678	144,610
Current portion of note payable	9,910	9,443
Total current liabilities	<u>449,575</u>	<u>335,113</u>
Related party payable	-	16,982
Notes payable	567,220	577,209
Net assets:		
Unrestricted	6,997,861	6,099,112
Temporarily restricted	492,738	35,498
Permanently restricted	122,402	123,746
Total net assets	<u>7,613,001</u>	<u>6,258,356</u>
	<u>\$ 8,629,796</u>	<u>\$ 7,187,660</u>

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended September 30, 2015

(with Summarized Information for the Year Ended September 30, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
Revenue:					
Public support:					
Donations from individuals, businesses and churches	\$ 4,720,105	\$ 272,000	\$ -	\$ 4,992,105	\$ 4,472,922
Food, clothing and automobile donations	1,211,675	-	-	1,211,675	1,353,963
Grants	614,798	-	-	614,798	1,204,988
Bequests and memorials	1,841,432	-	-	1,841,432	1,129,515
Net assets released from restrictions	44,237	(44,237)	-	-	-
Total public support	8,432,247	227,763	-	8,660,010	8,161,388
Other revenue (expense):					
Thrift store revenue	399,006	-	-	399,006	426,055
Rags salvage revenue	137,492	-	-	137,492	140,948
Interest and dividends	62,939	-	-	62,939	60,805
Mission motors revenue	1,086	-	-	1,086	2,195
Management fee revenue	9,861	-	-	9,861	9,932
Miscellaneous revenue	25,858	-	-	25,858	18,527
Gain on investment in subsidiary	7,495	-	-	7,495	10,882
Realized and unrealized (loss) gain on investments	(26,891)	1,477	(1,344)	(26,758)	20,809
Developer fee revenue	227,081	-	-	227,081	-
Total other revenue	843,927	1,477	(1,344)	844,060	690,153
Total revenue	9,276,174	229,240	(1,344)	9,504,070	8,851,541
Expenses:					
Program services	5,810,653	-	-	5,810,653	5,736,907
Fundraising	1,789,974	-	-	1,789,974	1,354,314
Management and general	548,798	-	-	548,798	508,452
Total expenses	8,149,425	-	-	8,149,425	7,599,673
Change in net assets	1,126,749	229,240	(1,344)	1,354,645	1,251,868
Net assets - beginning	6,099,112	35,498	123,746	6,258,356	5,006,488
Net asset reclassification	(228,000)	228,000	-	-	-
Net assets - ending	\$ 6,997,861	\$ 492,738	\$ 122,402	\$ 7,613,001	\$ 6,258,356

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended September 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2014</u>
Revenue:				
Public support:				
Donations from individuals, businesses and churches	\$ 4,472,922	\$ -	\$ -	\$ 4,472,922
Food and clothing donations	1,353,963	-	-	1,353,963
Grants	1,204,988	-	-	1,204,988
Bequests and memorials	1,129,515	-	-	1,129,515
Total public support	8,161,388	-	-	8,161,388
Other revenue (expense):				
Thrift store revenue	426,055	-	-	426,055
Rags salvage revenue	140,948	-	-	140,948
Interest and dividends	60,805	-	-	60,805
Mission motors revenue	2,195	-	-	2,195
Management fee revenue	9,932	-	-	9,932
Miscellaneous revenue	18,527	-	-	18,527
Gain on investment in subsidiary	10,882	-	-	10,882
Realized and unrealized gain (loss) on investments	19,730	1,764	(685)	20,809
Total other revenue	689,074	1,764	(685)	690,153
Total revenue	8,850,462	1,764	(685)	8,851,541
Expenses:				
Program services	5,736,907	-	-	5,736,907
Fundraising	1,354,314	-	-	1,354,314
Management and general	508,452	-	-	508,452
Total expenses	7,599,673	-	-	7,599,673
Change in net assets	1,250,789	1,764	(685)	1,251,868
Net assets - beginning	4,848,323	33,734	124,431	5,006,488
Net assets - ending	\$ 6,099,112	\$ 35,498	\$ 123,746	\$ 6,258,356

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2015

(with Summarized Information for the Year Ended September 30, 2014)

	Program Services			Supporting Services				Total All Services	
	Program Services	Retail	Total Program	Fund Raising	Capital Campaign	Management And General	Total Supporting	2015	2014
Salaries	\$ 2,317,731	\$ 216,772	\$ 2,534,503	\$ 23,644	\$ 69,038	\$ 237,298	\$ 329,980	\$ 2,864,483	\$ 2,451,619
Employee benefits	360,706	41,670	402,376	7,861	16,336	41,041	65,238	467,614	414,982
Unemployment	14,000	-	14,000	-	-	25,654	25,654	39,654	27,845
Payroll taxes	153,354	16,582	169,936	1,790	5,998	14,797	22,585	192,521	183,120
Total salaries and benefits	2,845,791	275,024	3,120,815	33,295	91,372	318,790	443,457	3,564,272	3,077,566
Resident aid and direct assistance	105,476	-	105,476	-	-	-	-	105,476	296,237
Membership dues and expenses	7,648	-	7,648	-	-	55	55	7,703	10,305
Professional fees	-	-	-	-	-	43,883	43,883	43,883	53,360
Payroll processing fees	-	-	-	-	-	13,959	13,959	13,959	11,702
Bank fees	-	6,597	6,597	19,033	-	45,007	64,040	70,637	61,329
Taxes and licenses	815	-	815	-	-	3,569	3,569	4,384	7,915
Insurance	13,980	21,651	35,631	-	-	6,187	6,187	41,818	40,122
Utilities	120,573	36,809	157,382	-	-	-	-	157,382	162,553
Computer expenses	3,796	15	3,811	-	-	-	-	3,811	2,386
Office expenses	14,893	1,814	16,707	-	-	17,491	17,491	34,198	27,083
Repairs and maintenance	28,723	2,370	31,093	-	-	-	-	31,093	32,181
Subscriptions	1,404	-	1,404	-	-	1,076	1,076	2,480	2,457
Travel and entertainment	26,715	1,034	27,749	18,763	14	55,915	74,692	102,441	79,442
Printing and advertising	-	-	-	163,628	-	-	163,628	163,628	171,749
Seminars	21,418	-	21,418	50	-	-	50	21,468	14,992
Vehicles operating expense	12,835	18,085	30,920	-	-	-	-	30,920	35,825
Janitorial expense	42,214	-	42,214	-	-	-	-	42,214	43,465
Fundraising and mailing expense	154	-	154	1,108,636	-	2,633	1,111,269	1,111,423	781,804
Other consultants	60,130	6,554	66,684	207,322	139,679	5,457	352,458	419,142	370,963
Food purchases	196,501	-	196,501	-	-	-	-	196,501	108,592
Donated food	508,987	-	508,987	-	-	-	-	508,987	576,926
Donated clothing	166,817	534,587	701,404	-	-	-	-	701,404	774,925
Kitchen supplies	47,276	-	47,276	-	-	-	-	47,276	42,189
Laundry and linen supplies	5,373	-	5,373	-	-	-	-	5,373	8,752
Rent/lease	284,178	206,141	490,319	-	-	36	36	490,355	530,216
Miscellaneous	(577)	-	(577)	-	8,111	3,405	11,516	10,939	208
Equipment under \$1,000	10,617	2,253	12,870	71	-	6,565	6,636	19,506	33,278
Donated automobiles	-	1,000	1,000	-	-	-	-	1,000	1,800
Supplies	9,363	1,749	11,112	-	-	10,127	10,127	21,239	24,243
Total before depreciation	4,535,100	1,115,683	5,650,783	1,550,798	239,176	534,155	2,324,129	7,974,912	7,384,565
Depreciation	156,109	3,761	159,870	-	-	14,643	14,643	174,513	215,108
Total functional expenses	\$ 4,691,209	\$ 1,119,444	\$ 5,810,653	\$ 1,550,798	\$ 239,176	\$ 548,798	\$ 2,338,772	\$ 8,149,425	\$ 7,599,673

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2014

	Program Services			Supporting Services				Total All Services
	Program Services	Retail	Total Program	Fund Raising	Capital Campaign	Management And General	Total Supporting	
Salaries	\$ 1,971,281	\$ 208,349	\$ 2,179,630	\$ 57,662	\$ 58,780	\$ 155,547	\$ 271,989	\$ 2,451,619
Employee benefits	326,362	29,728	356,090	12,388	10,336	36,168	58,892	414,982
Unemployment	12,991	-	12,991	-	-	14,854	14,854	27,845
Payroll taxes	146,147	15,877	162,024	4,379	4,393	12,324	21,096	183,120
Total salaries and benefits	2,456,781	253,954	2,710,735	74,429	73,509	218,893	366,831	3,077,566
Resident aid and direct assistance	296,237	-	296,237	-	-	-	-	296,237
Membership dues and expenses	2,892	-	2,892	-	-	7,413	7,413	10,305
Professional fees	-	-	-	-	-	53,360	53,360	53,360
Payroll processing fees	-	-	-	-	-	11,702	11,702	11,702
Bank fees	-	6,466	6,466	26,674	-	28,189	54,863	61,329
Taxes and licenses	2,165	-	2,165	-	-	5,750	5,750	7,915
Insurance	13,585	22,622	36,207	-	-	3,915	3,915	40,122
Utilities	125,452	37,101	162,553	-	-	-	-	162,553
Computer expenses	2,383	-	2,383	3	-	-	3	2,386
Office expenses	21,663	2,799	24,462	167	-	2,454	2,621	27,083
Repairs and maintenance	32,018	163	32,181	-	-	-	-	32,181
Subscriptions	1,403	-	1,403	-	-	1,054	1,054	2,457
Travel and entertainment	12,232	10	12,242	7,040	-	60,160	67,200	79,442
Printing and advertising	-	-	-	171,749	-	-	171,749	171,749
Seminars	14,279	-	14,279	713	-	-	713	14,992
Vehicles operating expense	13,587	22,238	35,825	-	-	-	-	35,825
Janitorial expense	41,298	2,167	43,465	-	-	-	-	43,465
Fundraising and mailing expense	6	-	6	778,115	-	3,683	781,798	781,804
Other consultants	58,395	3,467	61,862	146,382	75,533	87,186	309,101	370,963
Food purchases	108,592	-	108,592	-	-	-	-	108,592
Donated food	576,926	-	576,926	-	-	-	-	576,926
Donated clothing	210,240	564,685	774,925	-	-	-	-	774,925
Kitchen supplies	42,189	-	42,189	-	-	-	-	42,189
Laundry and linen supplies	8,752	-	8,752	-	-	-	-	8,752
Rent/lease	326,458	203,758	530,216	-	-	-	-	530,216
Miscellaneous	-	-	-	-	-	208	208	208
Equipment under \$1,000	32,237	-	32,237	-	-	1,041	1,041	33,278
Donated automobiles	-	1,800	1,800	-	-	-	-	1,800
Supplies	9,331	1,866	11,197	-	-	13,046	13,046	24,243
Total before depreciation	4,409,101	1,123,096	5,532,197	1,205,272	149,042	498,054	1,852,368	7,384,565
Depreciation	200,579	4,131	204,710	-	-	10,398	10,398	215,108
Total functional expenses	\$ 4,609,680	\$ 1,127,227	\$ 5,736,907	\$ 1,205,272	\$ 149,042	\$ 508,452	\$ 1,862,766	\$ 7,599,673

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30,

	2015	2014
Cash flows from operating activities:		
Changes in net assets	\$ 1,354,645	\$ 1,251,868
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities:		
Depreciation	174,513	215,108
Donated investments	(51,900)	(393,248)
Gain (loss) on investment in affiliate	(7,495)	(10,882)
Net realized and unrealized loss (gain) on investments	26,758	(20,809)
Contributions restricted for capital uses	(128,000)	(228,000)
Decrease (increase) in:		
Other receivables	33,298	19,628
Related party receivable	(2,467)	-
Prepaid expenses and other current assets	(1,119)	4,987
Contributions, bequests and grants receivable	(1,321,063)	(207,065)
Pledges receivable - capital campaign, net	(241,289)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	113,995	(9,968)
Related party payable	(16,982)	(199,833)
Net cash (used) provided by operating activities	(67,106)	421,786
Cash flows from investing activities:		
Withdrawals from restricted special purpose reserve	158,085	185,535
Sales of investments	348,749	-
Purchases of investments	-	(1,363,084)
Purchases of fixed assets	(215,480)	(67,254)
Net cash provided (used) by investing activities	291,354	(1,244,803)
Cash flows from financing activities:		
Contributions restricted for capital uses	128,000	228,000
Repayments of long-term debt	(9,522)	(7,614)
Net cash provided by financing activities	118,478	220,386
Net change in cash	342,726	(602,631)
Cash - beginning of year	1,260,742	1,863,373
Cash - end of year	<u><u>\$ 1,603,468</u></u>	<u><u>\$ 1,260,742</u></u>
Supplemental information:		
Donated clothes, food and automobiles	<u><u>\$ 1,211,391</u></u>	<u><u>\$ 1,353,651</u></u>
Capital assets acquired with debt	<u><u>\$ -</u></u>	<u><u>\$ 72,343</u></u>

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: City Mission Society, Inc. and Subsidiaries, which operates under the name of Buffalo City Mission (the Mission), is a Christian ministry that provides emergency, transitional, and long-term assistance in the form of shelter, food, clothing, substance abuse recovery programs, counseling, work and life skills training, education assistance and health care services to homeless and less fortunate men, women and families committed to turning their lives around. Programs that support these primary functions include thrift stores, which sell certain donated items, and rag sales.

Income Taxes: The Mission is a not-for-profit corporation organized under Section 402 of the Not-for-Profit Corporation Law of the state of New York. The Mission qualifies as a charitable organization under Internal Revenue Code Section 501(c)(3) and comparable state law, and contributions to it are tax deductible within limitations prescribed by the law. The Mission has been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Code. Accordingly, the Mission is exempt from income taxes with respect to all income related to its exempt function. However, income derived from activities not directly related to the Mission's exempt function could be subject to taxation.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the City Mission Society, Inc. and its wholly-owned subsidiaries, Manor Partner, Inc. and Cornerstone Partner, LLC. These entities are the special limited partner and general partner, respectively, of Cornerstone Manor, L.P. (Cornerstone) an affiliated entity and each own .005% of the affiliated entity (see Note 7). All significant intercompany balances and transactions have been eliminated.

The Mission has a general partner interest in Cornerstone Manor L.P. through its subsidiary Cornerstone Partner, LLC. For the years ended September 30, 2015 and 2014 management has determined that Cornerstone Partner, LLC did not control Cornerstone Manor, L.P. and, therefore Cornerstone Manor, L.P. is not consolidated in these financial statements.

Basis of Accounting: The financial statements of the Mission have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Accounting Estimates: The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results may differ from estimated amounts and the difference in the estimates from actual results could be significant.

Accounts Receivable: The Mission carries its accounts receivable at amount invoiced less an allowance for doubtful accounts. On a periodic basis, the Mission evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Management has determined that no reserve for doubtful accounts is necessary as of September 30, 2015 or 2014.

Inventory: Inventory consists of clothing and household items on hand at the thrift store locations and at the men's shelter and Cornerstone. The amounts included in the accompanying Statement of Financial Position represent an estimate of the value of the donated items on hand at September 30, 2015 and 2014.

Display of Net Assets by Class: The net assets of the Mission are reported in each of the following three classes: (a) unrestricted, (b) temporarily restricted, and (c) permanently restricted. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board-designated or appropriated amounts, are legally unrestricted, and are reported as part of the unrestricted net asset class.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Valuation and Income Recognition: All investments are carried at fair value or an approximation of 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 measurement date. See Note 5 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Land, Buildings and Equipment: Purchased property and equipment are stated at cost. Donations of property and equipment, if any, are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire future property and equipment additions are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Mission reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Mission reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Property and equipment are depreciated over their estimated useful lives using the straight-line method. Expenditures for repairs and maintenance that do not extend the life of the applicable assets are charged to expense as incurred.

Contributions: Contributions are recognized when the donor makes a promise to give to the Mission that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is met or expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions and Bequests Receivable: The Mission records contributions and bequests with payments due in future periods as receivables and as unrestricted support in the statement of activities and changes in net assets. Included in contributions receivable at September 30, 2015 is a bequest receivable in the amount of \$1,471,005 (\$57,968 - 2014). The Mission evaluates contributions receivable to determine whether an allowance for doubtful accounts is necessary. An allowance for doubtful accounts has not been deemed necessary for the years ended September 30, 2015 and 2014.

Pledges Receivable: Pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-adjusted interest rate applicable to the current year. Amortization of the discount is included in contribution revenue.

The Organization uses the allowance method to determine the uncollectible amounts of pledges receivable. The allowance is based on prior years' experience and management's analysis of the collectibility of specific promises made. Management has determined that no allowance was necessary for the years ended September 30, 2015 and 2014.

Other Receivables: The Mission records other receivables as unrestricted support in the statement of activities and changes in net assets. Other receivables include amounts due from Erie County's emergency shelter grant program, payments due from Goodwill for rags and funds due from the Buffalo Rapid Rehousing Assistance Program. As of September 30, 2015 \$62,430 is included in other receivables (\$95,728 - 2014).

Grant Revenue: Grant revenue is recorded as revenue when expenditures have been incurred in compliance with the grant requirements. As of September 30, 2015 \$94,537 is included in grants receivable (\$125,878 - 2014).

Donated Goods: Donated goods, including food, clothing, automobiles and other items, are recorded as contributions at their estimated fair value at the date of donation. Donated items available for resale are included in thrift store inventory in the accompanying statement of financial position.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Services: No amounts have been reflected in the statements for donated services, since no donated services meet the recognition criteria of the Financial Accounting Standards Board.

Concentration of Credit Risk: Financial instruments that potentially subject the Mission to a concentration of credit risk consist principally of cash accounts in financial institutions. Although the cash accounts may exceed the federally insured deposit amount at times, management does not anticipate nonperformance by the financial institution. Management reviews the financial viability of these institutions on a periodic basis.

Income Taxes: The Mission is a not-for-profit entity that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and accordingly, no provisions for federal taxes is included in the financial statements.

Accounting principles generally accepted in the United States of America provides guidance on the financials statement recognition and measurement for income tax position that the Mission has taken or expects to take in the Mission's income tax returns. Organizations take many tax positions relative to tax laws, including those taken in determining whether tax is due, a refund is owed, a tax return needs to be filed, or the characterization of income as taxable (for example, unrelated business income) or nontaxable. The Mission has not recorded any liabilities relating to uncertain tax positions. The Mission files its Return or Organization Exempt from Income Tax in the U.S. federal jurisdiction and its Annual Filing of Charitable Organization in New York State.

Subsequent Event: These financial statements have not been updated for subsequent events occurring after March 17, 2016, which is the date these financial statements were available to be issued.

NOTE 2. SPECIAL PURPOSE RESERVE

The Mission funded the development costs and future operations of the women's program in a new facility (Cornerstone Manor) (see Note 7). These funds are held in restricted cash and investment accounts until needed. Under the terms of an agreement between the Mission and Cornerstone pursuant to the development and funding of the project, the Mission has established and holds a restricted fund with a minimum required balance outlined in the original agreement. The amounts required to be restricted at September 30, 2015 are \$809,302 (\$970,136 - 2014), which are used to provide rent and support to Cornerstone on behalf of the qualified women and children residents to continue the program administered by the Mission, as well as funds for additional lease payments for space at the new facility used by the Mission for related services. Before funds can be transferred out of the special purpose reserve, the Mission is required to obtain approval from the limited partner. During the year ended September 30, 2015, the Mission withdrew \$158,085 (\$185,535 - 2014) of this reserve account to fund the operating losses incurred by Cornerstone (see Note 7). The reserve account earned no interest, dividends or unrealized gains during the year ended September 30, 2015 (\$41,420 - 2014).

NOTE 3. PLEDGES RECEIVABLE

Contributions, including pledges receivable to the Mission in the future, are recognized when received. A risk adjusted rate of 3% was used for the year ended September 30, 2015. There were no pledges receivable at the year ended September 30, 2014.

Pledges receivable, net, are summarized as follows at September 30:

	<u>2015</u>	<u>2014</u>
Pledges receivable to be collected in:		
Less than one year	\$ 168,280	\$ -
One to five years	<u>81,120</u>	<u>-</u>
	249,400	-
Less present value discount	<u>(8,111)</u>	<u>-</u>
	<u>\$ 241,289</u>	<u>\$ -</u>

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. LAND, BUILDINGS, EQUIPMENT AND DEPRECIATION

A summary of land, building, equipment and accumulated depreciation follows:

	<u>Estimated Useful Life</u>	<u>2015</u>	<u>2014</u>
Land and buildings:			
Mission Tupper Street	31.5 years	\$ 3,025,026	\$ 3,025,026
Other donated land	-	11,089	11,089
Equipment and furnishings	5 to 7 years	1,838,494	1,728,459
Leasehold improvements	10 to 15 years	101,123	39,915
Vehicles	5 to 7 years	196,916	196,916
Construction in process	-	44,237	-
		<u>5,216,885</u>	<u>5,001,405</u>
Less: Accumulated depreciation		<u>(3,964,536)</u>	<u>(3,790,023)</u>
		<u>\$ 1,252,349</u>	<u>\$ 1,211,382</u>

Depreciation expense for the year ended September 31, 2015 amounted to \$174,513 (\$215,108 - 2014).

Construction in process represents costs incurred for a capital project which has not been placed in service at year end.

NOTE 5. INVESTMENTS

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the FASB ASC 820 are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
- Level 2: Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
 - If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2015 and 2014.

Common stock: Valued at the closing price reported in the active market in which the individual securities are traded. Common stock is classified as Level 1 investments.

Money market funds: A money market fund is a public investment vehicle valued using \$1 for the NAV and is classified as a Level 1 investment.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. INVESTMENTS (CONTINUED)

Certificates of deposit: Valued at fair value by discounting the related cash flows based on current yield of similar instruments with comparable durations considering the credit-worthiness of the issuer. Certificates of deposit are classified as Level 2 investments.

Interest in trusts: Valued at fair value of underlying investments with inputs derived from observable market data of the underlying investments in active markets. These investments are classified as Level 2 investments.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments are comprised of the following as of September 30:

	2015		2014	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Common stock	\$ 206,839	\$ 196,695	\$ 154,941	\$ 171,686
Interest in trusts	48,644	59,377	47,004	59,244
Certificates of deposit	1,295,713	1,295,713	1,236,969	1,236,969
Money market funds	<u>2,972</u>	<u>2,972</u>	<u>410,465</u>	<u>410,465</u>
Total investments	<u>\$ 1,554,168</u>	<u>\$ 1,554,757</u>	<u>\$ 1,849,379</u>	<u>\$ 1,878,364</u>

The following table sets forth by level, within the fair value hierarchy, the Mission's assets at fair value as of September 30, 2015 and 2014:

	Assets at Fair Value as of September 30, 2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock:				
Large Value Equity	\$ 107,464	\$ -	\$ -	\$ 107,464
Large Growth Equity	36,873	-	-	36,873
Small Value Equity	29,362	-	-	29,362
Mid Value Equity	14,798	-	-	14,798
Large Core Equity	7,376	-	-	7,376
Foreign Large Blend	822	-	-	822
Interest in trusts	-	59,377	-	59,377
Certificates of deposit	-	1,295,713	-	1,295,713
Money market funds	<u>2,972</u>	<u>-</u>	<u>-</u>	<u>2,972</u>
Total assets at fair value	<u>\$ 199,667</u>	<u>\$ 1,355,090</u>	<u>\$ -</u>	<u>\$ 1,554,757</u>

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. INVESTMENTS (CONTINUED)

	Assets at Fair Value as of September 30, 2014			
	Level 1	Level 2	Level 3	Total
Common stock:				
Large Value Equity	\$ 115,994	\$ -	\$ -	\$ 115,994
Large Growth Equity	29,622	-	-	29,622
Mid Value Equity	16,476	-	-	16,476
Large Core Equity	7,874	-	-	7,874
Foreign Large Blend	916	-	-	916
Small Value Equity	804	-	-	804
Interest in trusts	-	59,244	-	59,244
Certificates of deposit	-	1,236,969	-	1,236,969
Money market funds	410,465	-	-	410,465
Total assets at fair value	\$ 582,151	\$ 1,296,213	\$ -	\$ 1,878,364

NOTE 6. NOTES RECEIVABLE - AFFILIATE

The Mission has a note receivable from Cornerstone in the amount of \$523,600. The funds were received by the Mission under a note payable (see Note 9) to Federal Home Loan Bank. The note receivable does not bear interest and any unpaid principal is due in 2020. The note is secured by a mortgage on the property of Cornerstone, which is subordinate to other debt owed by Cornerstone.

NOTE 7. INVESTMENT IN AFFILIATE AND RELATED PARTY PAYABLE

The Mission operates the women's program under the Cornerstone Manor name, which allows women and children to seek housing, health care, and financial assistance. An affiliated organization, Cornerstone Manor, L.P., (Cornerstone), was formed to develop and own a facility that allowed for the expansion of the Cornerstone Manor program. The general partner of Cornerstone is a wholly-owned subsidiary of the Mission. The development of the new facility by Cornerstone was funded through various sources, including investments from subsidiaries of the Mission, limited partner investment for low-income housing tax credits, and government agency grants and loans.

During the year ended September 30, 2015 the Mission made \$13,586 of partnership contributions to Cornerstone (\$16,799 - 2014). The Mission records its investment on the equity method. During the year ended September 30, 2015 the Mission recorded a loss on the investment in Cornerstone of \$6,091 (\$5,917 - 2014) resulting in an investment in affiliate as of September 30, 2015 of \$768,956 (\$761,461 - 2014). This investment consists of an investment balance of \$543,605 for Cornerstone Partner, LLC, the General Partner (\$543,623 - 2014) and of an investment in affiliate as of September 30, 2015 of \$225,351 for Manor Partner, Inc., the Special Limited Partner (\$217,838 - 2014).

The following represents condensed financial information for the partnership at December 31 which is not materially different than September 30:

	2015	2014
Net book value of properties	\$ 7,198,634	\$ 7,736,430
Less recourse debt	<u>1,559,226</u>	<u>1,764,164</u>
	5,639,408	5,972,266
Other liabilities, net	<u>3,698,400</u>	<u>3,698,400</u>
Net equity	\$ 1,941,008	\$ 2,273,866

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. INVESTMENT IN AFFILIATE AND RELATED PARTY PAYABLE (CONTINUED)

Revenues	\$ 306,549	\$ 301,667
Costs and other expenses	<u>652,993</u>	<u>673,038</u>
Operating (loss)	\$ <u>(346,444)</u>	\$ <u>(371,371)</u>

The amount due to the Mission from Cornerstone at September 30, 2015 was \$2,467. The amount owed to Cornerstone from the Mission at September 30, 2014 was \$16,982. Presentation of the amounts owed are included on the accompanying Statement of Financial Position as a related party payable.

The Mission has also entered into a purchase option and right of first refusal agreement with Cornerstone that gives them the right of first refusal on any sale of the property by Cornerstone or the right to purchase the limited partner's interest at the end of the compliance period for the low income housing tax credits. The terms of the purchase price are defined in the agreement.

The Mission has guaranteed certain obligations related to the general partnership interest in Cornerstone Manor, L.P. of its wholly owned subsidiaries. These guarantees include the following:

- Guarantee to fund operating deficits during the operating deficit guaranty period. The operating deficit guaranty period is defined as the period beginning with the date of achievement of qualified occupancy, which occurred during the year ended September 30, 2006, and continuing for 15 years. This obligation is limited to \$256,000 and payable upon the Partnership incurring aggregate operating deficits in that amount.
- Fund permanent tax credit shortfalls if required to be refunded to the limited partner in an amount not to exceed the greater of one full year of tax credits (\$570,000) allocated to the partnership or the total amount of the developer's fee (\$797,000).
- Purchase the limited partner's interest for an amount \$50,000 greater than the Limited Partner's contributions, plus fees, if the partnership fails to meet certain provisions, mainly failing to generate tax credits.

The Mission has analyzed these obligations and determined that the likelihood of payment is not probable as of September 30, 2015. Accordingly, no liability has been recorded.

NOTE 8. DEMAND NOTE PAYABLE

The Mission has a line of credit with a financial institution in the amount of \$200,000, with interest payable annually at the bank's prime rate 3.25% plus 1.5% (4.75% - 2015). There was no outstanding balance as of September 30, 2015 (\$0 - 2014). The line of credit is collateralized by a general security interest in the assets of the Mission.

NOTE 9. NOTES PAYABLE

The Mission has a note payable to the Federal Home Loan Bank of New York in the amount of \$523,600 (\$523,600 - 2014). The note does not bear interest and is due in full in September 2021. The note is secured by an assigned mortgage from the note receivable that evidences the loan of the proceeds to an affiliate (see Note 6). Any amounts received from the affiliate under the related note receivable described in Note 6 are due to the Federal Home Loan Bank. No amounts have been received during 2015 and 2014.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. NOTES PAYABLE (CONTINUED)

During the year ended September 30, 2014, the Mission purchased a vehicle and entered into a note payable to a bank. The note is payable over six years with interest at 4.84%. As of September 31, 2015 there was \$53,530 outstanding on this note (\$63,052 - 2014). The note is collateralized by the vehicle.

Annual maturities of notes payable subsequent to September 30, 2015 are as follows:

2016	\$ 9,910
2017	10,401
2018	10,915
2019	11,455
2020	10,849
Thereafter	<u>523,600</u>
	<u>\$ 577,130</u>

NOTE 10. NET ASSETS

Included in unrestricted net assets at September 30, 2015 is \$809,302 (\$970,136 - 2014) of net assets designated by the board to support the operations of the Women's and Children's program at Cornerstone (see Note 2).

There were \$536,975 of temporarily restricted net assets as of September 30, 2015 (\$35,498 - 2014). The temporarily restricted net assets represent the both Mission's beneficial interest in a charitable remainder trust as well as pledges for their capital campaign. There are no restrictions on the use of the charitable remainder trust funds once they receive the final distribution from the trust, they are time restricted. The funds relating to the capital campaign may only be released from restriction for use toward the men's facility expansion project, they are purpose restricted.

During the year ended September 30, 2015, \$228,000 was reclassified from unrestricted to temporarily restricted net assets to be in accordance with formalized donor restrictions received during the year. There were no such transactions during the year ended September 30, 2014.

Permanently restricted net assets of \$122,402 (\$123,746 - 2014) represent an endowment for which the principal amount of gifts and bequests are required to be maintained intact in perpetuity and the Mission's beneficial interest in a perpetual trust (See Note 16).

NOTE 11. PENSION PLAN

The Mission has established a defined contribution pension plan which covers all full-time employees meeting age and eligibility requirements. Employer contributions to the plan are determined annually at the discretion of the Board of Directors and vest over a six year period. There was no contribution for the years ended September 30, 2015 or 2014.

NOTE 12. OPERATING LEASES

Equipment and Property: The Mission has an operating lease for a thrift store located in the Dick Urban Plaza. During 2014, the Mission renewed the lease for a seven year term which expires on September 30, 2020. The lease also requires additional payments of 10% of gross receipts in excess of \$450,000. Gross receipts have not and are not expected to exceed this level.

During 2015, the Mission signed an operating lease for office space located on Main Street in Buffalo. This lease maintains a 3 year term which expires on March 31, 2018. The Mission also has several minor equipment leases.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. OPERATING LEASES (CONTINUED)

Future approximate minimum lease payments are as follows:

2016	\$ 196,000
2017	191,000
2018	171,000
2019	140,000
2020	<u>137,000</u>
	<u>\$ 835,000</u>

Lease expense relating to these agreements amounted to \$235,973 for the fiscal year ended September 30, 2015 (\$227,255 - 2014).

Rent Support and Other: The Mission pays rent support payments to support the tenants in the building owned by an affiliated entity, Cornerstone. The Mission also pays lease payments to operate the Cornerstone program for women and children for a period of fifteen years. The agreements expire December 31, 2021. The rent support agreement calls for payments from the Mission to Cornerstone on behalf of the qualified permanent residents. Further, the Mission is required to make lease payments for the portion of the building used for emergency shelter and other supporting services that the Mission operates. The Mission is also required to make additional lease payments for their share of the operating expenses of Cornerstone in the same ratio of space leased for operating these supporting services to total space. The Mission manages Cornerstone and processes all payments on behalf of Cornerstone and charges them for the reimbursement of these expenditures, less the required rental, lease and additional lease payments detailed above. The Mission also collects minor management fees for these services.

The payments required under the rent support agreement will be made from the special purpose reserve established by the Mission (see Note 2). Approximate expected future payments under this agreement are as follows:

2016	\$ 201,000
2017	205,000
2018	209,000
2019	213,000
2020	217,000
Thereafter	<u>279,000</u>
Total	<u>\$ 1,324,000</u>

Rent expense relating to the rent support agreement amounted to \$135,378 for the fiscal year ended September 30, 2015 (\$191,468 - 2014).

The expected future minimum lease payments under the lease agreement are as follows:

2016	\$ 48,473
2017	49,927
2018	51,425
2019	52,968
2020	54,557
Thereafter	<u>41,831</u>
Total	<u>\$ 299,181</u>

Rent expense relating to the lease expense and the additional lease expense for their share of the building expenses amounted to \$106,366 for the fiscal year ended September 30, 2015 (\$106,097 - 2014).

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. VALUE OF DONATED GOODS

Gifts of food and clothing at September 30, 2015 were valued at \$508,987 (\$576,926 - 2014) and \$701,404 (\$774,925 - 2014), respectively. The value of donated food and clothing recognized was based on the number of meals served at a standard cost of \$2.46 (\$2.46 - 2014) per meal, the number of grocery bags distributed at a standard cost of \$25 (\$25 - 2014) per bag, and the number of bags of clothing distributed to clients at a standard cost of \$120 (\$120 - 2014) per bag. Donated automobiles at September 30, 2015 were valued at \$1,000 (\$1,800 - 2014).

NOTE 14. FUNCTIONAL ALLOCATION OF EXPENSES

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

NOTE 15. RELATED PARTY TRANSACTIONS

The Mission receives a management fee from Cornerstone for the management and bookkeeping services performed by the Mission. The management fee received from Cornerstone during the year ended September 30, 2015 amounted to \$9,861 (\$9,932 - 2014).

The Mission earned a developers fee amounting to \$797,500 during the year ended September 30, 2007 related to the development of Cornerstone. As of September 30, 2014, \$570,419 of this amount has been received. During the year ended September 30, 2015, the Mission received the remaining \$227,081 which was not previously recorded as a receivable or revenue due to the prior years' uncertainty of the collectability of this amount.

NOTE 16. ENDOWMENT

The Mission's endowment consists of one individual fund which is permanently restricted in the amount of \$100,000 at September 30, 2015 (\$100,000 - 2014) and the Mission's \$22,402 (\$23,746 - 2014) beneficial interest in a perpetual trust. Its endowment includes only donor-restricted endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Mission have interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-imposed endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Mission classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Mission in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Mission considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. ENDOWMENT (CONTINUED)

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or NYPMIFA requires the Mission to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies as of September 30, 2015 and 2014. Deficiencies would result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions and continued appropriation for certain programs that are deemed prudent by the Mission.

The following is a summary of the Mission's endowment net asset composition by type of fund as of September 30:

	2015			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ -	\$ 122,402	\$ 122,402
2014				
Donor restricted endowment funds	\$ 1,451	\$ -	\$ 123,746	\$ 125,197

Changes in the Mission's endowment net assets for the year ended September 30, 2015 and 2014 are as follows:

	2015			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net asset October 1, 2014	\$ 1,451	\$ -	\$ 123,746	\$ 125,197
Contributions / transfers	22,760	-	-	22,760
Withdrawals	(16,400)	-	-	(16,400)
Investment return:				
Investment income and change in beneficial interest	-	-	(1,344)	(1,344)
Unrealized loss	(7,811)	-	-	(7,811)
Endowment net assets September 30, 2015	\$ -	\$ -	\$ 122,402	\$ 122,402
2014				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net asset October 1, 2013	\$ (14,587)	\$ -	\$ 124,431	\$ 109,844
Investment return:				
Investment income and change in beneficial interest	-	-	(685)	(685)
Unrealized gain	16,038	-	-	16,038
Endowment net assets September 30, 2014	\$ 1,451	\$ -	\$ 123,746	\$ 125,197