

AUDITED  
CONSOLIDATED FINANCIAL STATEMENTS

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

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SEPTEMBER 30, 2018

**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 (the Company) which comprise the statements of financial position as of September 30, 2018 and 2017, 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 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, 2018 and 2017, 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  
December 31, 2018

## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30,

ASSETS	2018	2017
<b>Current assets:</b>		
Cash and cash equivalents	\$ 3,170,550	\$ 1,574,624
Contributions, bequests and grants receivable	3,318,838	267,099
Current portion pledges receivable - capital campaign	614,366	367,710
Other receivables	51,215	69,243
Inventory	25,305	25,305
Prepaid expenses and other current assets	21,395	18,314
Total current assets	7,201,669	2,322,295
<b>Investments</b>	1,312,430	1,555,729
<b>Special purpose reserve</b>	654,353	735,013
<b>Land, buildings and equipment, net</b>	1,446,976	1,369,501
<b>Pledges receivable - capital campaign</b>	1,081,368	1,042,989
<b>Other assets:</b>		
Note receivable	523,600	523,600
Beneficial interest in charitable trusts and other assets	586,208	541,555
Investments in affiliate	591,504	666,275
Total other assets	1,701,312	1,731,430
	<u>\$ 13,398,108</u>	<u>\$ 8,756,957</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 341,831	\$ 196,909
Accrued expenses	138,424	150,107
Current portion of note payable	-	10,915
Total current liabilities	480,255	357,931
<b>Related party payable</b>	158	7,955
<b>Notes payable</b>	523,600	545,041
Total liabilities	1,004,013	910,927
<b>Net assets:</b>		
Unrestricted	6,725,930	5,437,168
Temporarily restricted	5,534,387	2,286,067
Permanently restricted	133,778	122,795
Total net assets	12,394,095	7,846,030
	<u>\$ 13,398,108</u>	<u>\$ 8,756,957</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, 2018

(with Summarized Information for the Year Ended September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
<b>Revenue:</b>					
<b>Public support:</b>					
Donations from individuals, businesses and churches	\$ 4,584,431	\$ -	\$ 10,983	\$ 4,595,414	\$ 4,345,713
Bequests and memorials	2,636,939	-	-	2,636,939	1,354,034
Food, clothing and automobile donations	1,272,759	-	-	1,272,759	1,102,958
Grants	401,681	-	-	401,681	450,388
Capital campaign	-	4,326,758	-	4,326,758	1,327,951
Net assets released from restrictions	1,078,438	(1,078,438)	-	-	-
Total public support	9,974,248	3,248,320	10,983	13,233,551	8,581,044
<b>Other revenue (expense):</b>					
Thrift store revenue	412,764	-	-	412,764	389,760
Rags salvage revenue	111,071	-	-	111,071	100,112
Interest and dividends	111,634	-	-	111,634	120,581
Miscellaneous revenue	38,902	-	-	38,902	33,147
Management fee revenue	10,465	-	-	10,465	10,260
Loss on investment in subsidiary	(6,583)	-	-	(6,583)	(6,459)
Mission motors revenue	2,050	-	-	2,050	4,100
Realized and unrealized gain on investments	67,562	-	-	67,562	54,428
Total other revenue	747,865	-	-	747,865	705,929
Total revenue	10,722,113	3,248,320	10,983	13,981,416	9,286,973
<b>Expenses:</b>					
Program services	6,445,792	-	-	6,445,792	5,974,818
Fundraising	2,383,859	-	-	2,383,859	2,142,251
Management and general	603,700	-	-	603,700	592,164
Total expenses	9,433,351	-	-	9,433,351	8,709,233
<b>Change in net assets</b>	1,288,762	3,248,320	10,983	4,548,065	577,740
Net assets - beginning	5,437,168	2,286,067	122,795	7,846,030	7,268,290
Net assets - ending	\$ 6,725,930	\$ 5,534,387	\$ 133,778	\$ 12,394,095	\$ 7,846,030

See accompanying notes.

## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
<b>Revenue:</b>				
<b>Public support:</b>				
Donations from individuals, businesses and churches	\$ 4,345,713	\$ -	\$ -	\$ 4,345,713
Bequests and memorials	1,354,034	-	-	1,354,034
Food and clothing donations	1,102,958	-	-	1,102,958
Grants	450,388	-	-	450,388
Capital campaign	-	1,327,951	-	1,327,951
Net assets released from restrictions	927,206	(927,206)	-	-
Total public support	8,180,299	400,745	-	8,581,044
<b>Other revenue (expense):</b>				
Thrift store revenue	389,760	-	-	389,760
Rags salvage revenue	100,112	-	-	100,112
Interest and dividends	120,581	-	-	120,581
Miscellaneous revenue	33,147	-	-	33,147
Management fee revenue	10,260	-	-	10,260
Loss on investment in subsidiary	(6,459)	-	-	(6,459)
Mission motors revenue	4,100	-	-	4,100
Realized and unrealized gain on investments	54,428	-	-	54,428
Total other revenue	705,929	-	-	705,929
Total revenue	8,886,228	400,745	-	9,286,973
<b>Expenses:</b>				
Program services	5,974,818	-	-	5,974,818
Fundraising	2,142,251	-	-	2,142,251
Management and general	592,164	-	-	592,164
Total expenses	8,709,233	-	-	8,709,233
<b>Change in net assets</b>	176,995	400,745	-	577,740
Net assets - beginning	5,260,173	1,885,322	122,795	7,268,290
Net assets - ending	\$ 5,437,168	\$ 2,286,067	\$ 122,795	\$ 7,846,030

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2018

(with Summarized Information for the Year Ended September 30, 2017)

	Program Services			Supporting Services			Total All Services	
	Program Services	Retail	Total Program	Fund Raising	Capital Campaign	Management And General	Total Supporting	2017
Salaries	\$ 2,635,872	\$ 256,066	\$ 2,891,938	\$ -	\$ 259,702	\$ 288,640	\$ 548,342	\$ 3,196,809
Employee benefits	531,775	50,549	582,324	-	43,142	80,885	124,027	615,689
Unemployment	6,504	-	6,504	-	-	24	24	16,548
Payroll taxes	179,204	19,079	198,283	-	19,589	22,372	41,941	224,172
Total salaries and benefits	3,353,355	325,694	3,679,049	-	322,413	401,921	724,334	4,053,218
Resident aid and direct assistance	35,976	-	35,976	-	-	-	-	37,572
Membership dues and expenses	3,240	-	3,240	-	-	-	-	12,774
Professional fees	-	-	-	-	-	3,627	3,627	6,867
Payroll processing fees	-	-	-	-	-	40,270	40,270	40,238
Bank fees	-	-	-	-	-	22,055	22,055	20,934
Taxes and licenses	3,316	7,528	7,528	24,595	-	56,435	81,030	95,385
Insurance	28,286	-	3,316	-	-	1,866	-	6,457
Utilities	110,529	17,634	45,920	-	-	-	-	43,760
Computer expenses	8,601	39,152	149,681	-	-	-	-	141,269
Repairs and maintenance	22,402	5,070	13,671	-	-	-	-	2,902
Subscriptions	2,321	575	19,613	-	11,636	9,067	20,703	28,608
Travel and entertainment	39,488	484	22,886	-	-	4,048	-	39,599
Printing and advertising	-	-	2,321	-	-	41,234	-	5,966
Seminars	26,673	764	40,252	2,020	21,571	-	64,825	105,077
Vehicles operating expense	6,614	-	-	146,226	-	-	146,226	146,226
Janitorial expense	38,828	24,560	31,174	-	-	-	-	26,673
Fundraising and mailing expense	144	60	38,888	-	-	-	-	31,174
Other consultants	37,201	-	144	-	-	-	-	38,888
Food purchases	292,713	581	37,782	1,208,070	141,981	2,575	1,352,626	1,294,616
Donated food	433,194	-	292,713	188,903	280,635	6,939	456,477	494,259
Donated clothing	313,680	-	433,194	-	-	-	-	292,713
Kitchen supplies	32,264	523,835	837,615	-	-	-	-	433,194
Laundry and linen supplies	4,505	-	32,264	-	-	-	-	837,515
Rent/lease	290,502	-	4,505	-	-	-	-	32,264
Miscellaneous	-	204,249	494,761	-	13,192	-	13,192	4,505
Equipment under \$1,000	13,557	-	-	-	-	-	-	507,943
Donated automobiles	-	710	14,267	-	-	733	733	15,000
Bad debt	-	2,050	2,050	-	-	-	-	11,639
Supplies	-	-	-	-	37,480	-	37,480	2,050
Total before depreciation	5,129,102	3,785	16,460	1,569,814	814,045	3,832	25,429	9,264,294
Depreciation	156,099	1,156,731	6,285,833	-	5,137	594,602	8,969	8,537,248
Total functional expenses	\$ 5,285,201	\$ 1,160,591	\$ 6,445,792	\$ 1,569,814	\$ 814,045	\$ 603,700	\$ 2,987,559	\$ 8,709,233

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES  
For the Year Ended September 30, 2017

	Program Services			Supporting Services				Total All Services	
	Program Services	Retail	Total Program	Fund Raising	Capital Campaign	Management And General	Total Supporting		
Salaries	\$ 2,445,645	\$ 241,012	\$ 2,686,657	\$ -	\$ 230,238	\$ 279,914	\$ 510,152	\$	3,196,809
Employee benefits	455,191	55,408	510,599	-	49,212	55,878	105,090		615,689
Unemployment	6,987	-	6,987	-	-	9,561	9,561		16,548
Payroll taxes	162,750	18,026	180,776	-	21,922	21,474	43,396		224,172
Total salaries and benefits	3,070,573	314,446	3,385,019	-	301,372	366,827	668,199		4,053,218
Resident aid and direct assistance	37,572	-	37,572	-	-	-	-		37,572
Membership dues and expenses	6,973	-	6,973	-	-	5,801	5,801		12,774
Professional fees	-	-	-	-	-	40,238	40,238		40,238
Payroll processing fees	-	-	-	17,071	-	20,934	20,934		20,934
Bank fees	-	9,150	9,150	-	-	69,164	86,235		95,385
Taxes and licenses	6,457	-	6,457	-	-	-	-		6,457
Insurance	21,390	22,370	43,760	-	-	-	-		43,760
Utilities	105,924	35,345	141,269	-	-	-	-		141,269
Computer expenses	2,214	688	2,902	-	-	-	-		2,902
Office expenses	17,287	470	17,757	-	3,053	7,798	10,851		28,608
Repairs and maintenance	34,519	5,080	39,599	-	-	-	-		39,599
Subscriptions	2,877	-	2,877	-	-	3,089	3,089		5,966
Travel and entertainment	31,063	1,905	32,968	1,814	11,443	35,675	48,932		81,900
Printing and advertising	-	3,034	3,034	209,445	-	-	209,445		212,479
Seminars	22,461	249	22,710	-	-	-	-		22,710
Vehicles operating expense	10,401	16,871	27,272	-	-	-	-		27,272
Janitorial expense	37,373	378	37,751	-	-	-	-		37,751
Fundraising and mailing expense	307	-	307	1,211,817	81,387	1,105	1,294,309		1,294,616
Other consultants	51,003	7,549	58,552	174,902	116,590	18,501	309,993		368,545
Food purchases	306,580	-	306,580	-	-	-	-		306,580
Donated food	464,673	-	464,673	-	-	-	-		464,673
Donated clothing	148,320	-	148,320	-	-	-	-		148,320
Kitchen supplies	39,137	488,457	636,777	-	-	-	-		636,777
Laundry and linen supplies	5,186	-	5,186	-	-	-	-		5,186
Rent/lease	253,402	210,481	463,883	-	13,357	35	13,392		477,275
Miscellaneous	4,033	-	4,033	-	-	-	-		4,033
Equipment under \$1,000	9,367	92	9,459	-	-	2,180	2,180		11,639
Donated automobiles	-	1,500	1,500	-	-	-	-		1,500
Supplies	9,189	2,216	11,405	-	-	5,088	5,088		16,493
Total before depreciation	4,698,281	1,120,281	5,818,562	1,615,049	527,202	576,435	2,718,686		8,537,248
Depreciation	152,396	3,860	156,256	-	-	15,729	15,729		171,985
Total functional expenses	\$ 4,850,677	\$ 1,124,141	\$ 5,974,818	\$ 1,615,049	\$ 527,202	\$ 592,164	\$ 2,734,415	\$	8,709,233



## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

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

	2018	2017
<b>Cash flows from operating activities:</b>		
Changes in net assets	\$ 4,548,065	\$ 577,740
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	169,057	171,985
Donated investments	(23,019)	-
Gain on beneficial interest in perpetual trust	(1,324)	-
Donation of interest in perpetual trust	(9,659)	-
Loss on investment in affiliate	6,583	6,459
Net realized and unrealized gain on investments	(67,562)	(54,428)
Loss on disposal of furniture and equipment	31,152	-
Contributions restricted for capital uses	(466,260)	(59,800)
Decrease (increase) in:		
Other receivables	18,028	336
Prepaid expenses and other current assets	(3,081)	(11,007)
Contributions, bequests and grants receivable	(3,051,739)	(185,931)
Pledges receivable - capital campaign, net	(285,035)	(1,268,151)
Increase (decrease) in:		
Accounts payable and accrued expenses	133,239	(79,797)
Related party payable	(7,797)	(31,779)
<b>Net cash provided (used) by operating activities</b>	<b>990,648</b>	<b>(934,373)</b>
<b>Cash flows from investing activities:</b>		
Withdrawals from restricted special purpose reserve	80,660	74,289
Proceeds from disposal of furniture and equipment	1,000	-
Return of capital from related party	68,188	100,000
Sales of investments	376,412	3,535
Purchases of investments	(76,202)	(71,520)
Purchases of fixed assets	(305,547)	(427,278)
<b>Net cash provided (used) by investing activities</b>	<b>144,511</b>	<b>(320,974)</b>
<b>Cash flows from financing activities:</b>		
Contributions restricted for capital uses	466,260	59,800
Repayments of long-term debt	(5,493)	(10,542)
<b>Net cash provided by financing activities</b>	<b>460,767</b>	<b>49,258</b>
<b>Net change in cash and cash equivalents</b>	<b>1,595,926</b>	<b>(1,206,089)</b>
Cash and cash equivalents - beginning of year	1,574,624	2,780,713
Cash and cash equivalents - end of year	<u>\$ 3,170,550</u>	<u>\$ 1,574,624</u>
<b>Supplemental information:</b>		
Donated clothes, food and automobiles	<u>\$ 1,272,759</u>	<u>\$ 1,102,958</u>
Cash paid for:		
Interest expense	<u>\$ 263</u>	<u>\$ 2,363</u>

See accompanying notes.

## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 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.

**Tax Status:** The Mission is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). Contributions to the organization are tax deductible to donors under Section 170 of the IRC. The organization is not classified as a private foundation.

**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, 2018 and 2017 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 consolidated financial statements of the Mission have been prepared on the accrual basis and accounting principles generally accepted in the United States of America. The significant accounting and reporting policies used by the Mission are described subsequently to enhance the usefulness and understandability of the financial statements.

**Use of Estimates:** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Mission's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Mission's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

**Other Receivables:** The Mission carries its other 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, 2018 or 2017.

**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 Statements of Financial Position represent an estimate of the value of the donated items on hand at September 30, 2018 and 2017.

**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.

**Beneficial Interest in Assets:** The Mission holds an agreement with the Community Foundation for Greater Buffalo (CFGB) for assets held in CFGB's investment pool as well as their strategic asset allocation and investment opportunities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**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.

**Beneficial Interest in Trusts:** The Mission is the irrevocable beneficiary of two perpetual charitable trusts and one charitable remainder trust held by bank trustees. The beneficial interest in the trusts are reported at their fair value, which is estimated as the fair value of the underlying trust assets. Distributions of income from the perpetual trusts are unrestricted. The value of the beneficial interest in the trusts is adjusted annually for the change in its estimated fair value. Those changes in value are reported as increases in permanently restricted net assets for the perpetual trusts because the trust assets will never be distributed to the Mission. The changes in value for the charitable remainder trust are reported as increases in temporarily restricted net assets because when the Mission receives the distribution of trust assets from the trustee they will be unrestricted.

**Endowment:** Endowment investments consist of investments purchased with donor-restricted permanent endowments, which are contributions restricted by donors to investment in perpetuity with only investment income and appreciation being used to support the Mission's activities. Endowment investments also include investments purchased with unspent investment income and net gains on these resources. Endowment investments are reported at fair value with changes to fair value reported as investment return in the statement of activities and changes in net assets. Purchases and sales of investments are reported on the trade date. The investment and spending policies for the Endowment Fund are discussed in Note 18.

**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.

**Impairment of Long-Lived Assets:** The Mission reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset including its ultimate disposition. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No impairment was recognized during the years ended September 30, 2018 and 2017.

**Contributions:** Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

The Mission is a beneficiary under several donors' wills. Contributions from bequests are recognized as contributions receivable when the probate court declares that the will is valid and the Mission has an irrevocable right to the bequest.

## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Contributions Receivable and Bequests Receivable:** The Mission records contributions and bequests with payments due in future periods as receivables. The Mission evaluates amounts 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, 2018 and 2017.

**Grant Revenues and Receivable:** Grant revenue is recorded as revenue when expenditures have been incurred in compliance with the grant requirements. As of September 30, 2018, there was \$3,593 in grants receivable (\$1,959 - 2017).

**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 Mission 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 collectability of specific promises made. Management has determined that no allowance was necessary for the years ended September 30, 2018 and 2017.

**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.

**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.

**Cash and cash equivalents:** Cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less, unless the investments are held for meeting restrictions of a capital or endowment nature.

**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.

**Recently Issued Accounting Pronouncements:** In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Mission is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Mission is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. The update also clarifies how to determine if a contribution is conditional. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Mission is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

#### NOTE 2. SPECIAL PURPOSE RESERVE

The Mission funded the development costs and future operations of the women's program in a separate 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, 2018 are \$654,353 (\$735,013 - 2017), 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, 2018, the Mission withdrew \$80,660 (\$74,289 - 2017) of this reserve account to fund the operating losses incurred by Cornerstone (see Note 7).

#### NOTE 3. PLEDGES RECEIVABLE

Contributions, including pledges receivable to the Mission in the future, are recognized when received. A risk adjusted rate of 5.00% was used for the years ended September 30, 2018 (3.00% - 2017).

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

	<u>2018</u>	<u>2017</u>
Pledges receivable to be collected in:		
Less than one year	\$ 614,366	\$ 367,710
One to five years	<u>1,216,374</u>	<u>1,157,090</u>
	1,830,740	1,524,800
Less present value discount	<u>(135,006)</u>	<u>(114,101)</u>
	<u>\$ 1,695,734</u>	<u>\$ 1,410,699</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>2018</u>	<u>2017</u>
Land and buildings:			
Mission Tupper Street	31.5 years	\$ 3,025,026	\$ 3,025,026
Other donated land	-	303	11,089
Equipment and furnishings	5 to 7 years	1,937,767	1,896,613
Leasehold improvements	10 to 15 years	101,123	101,123
Vehicle	5 to 7 years	99,258	196,916
Construction in process	-	708,634	444,241
		<u>5,872,111</u>	<u>5,675,008</u>
Less: Accumulated depreciation		<u>(4,425,135)</u>	<u>(4,305,507)</u>
		<u>\$ 1,446,976</u>	<u>\$ 1,369,501</u>

Depreciation expense for the year ended September 30, 2018 amounted to \$169,057 (\$171,985 - 2017).

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

**NOTE 5. INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Investments consist of the following as of September 30:

	<u>2018</u>	<u>2017</u>
Common stock	\$ 188,914	\$ 129,542
Interest in trusts	69,338	58,355
Certificates of deposit	1,116,914	1,421,702
Beneficial interest in assets held by Community Foundation of Greater Buffalo	516,870	483,200
Money market funds	6,602	4,485
	<u>\$ 1,898,638</u>	<u>\$ 2,097,284</u>

The composition of investment income, net of investment expense, is as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 76,202	\$ 71,520
Unrealized gains	67,562	54,428
Investment expenses	(4,107)	(3,535)
	<u>\$ 139,657</u>	<u>\$ 122,413</u>

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**NOTE 5. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

Level 1: Quoted prices for identical assets or liabilities in active markets to which the Mission has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in markets that are not active;
- Observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
- Inputs derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3: Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value if observable inputs are not available.

When available, the Mission measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. However, Level 1 inputs are not available for many of the assets and liabilities that the Mission is required to measure at fair value (for example, unconditional promises to give and in-kind contributions).

The primary uses of fair value measures in the organization's financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of endowment and investments.
- recurring measurement of beneficial interests in trusts.

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, 2018 and 2017.

*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.

*Certificates of deposit:* Certificates of deposit are valued at cost plus interest. 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.

*Units in Community Foundation Pool:* The investments held by the Community Foundation are invested in a pooled investment portfolio valued by the Community Foundation at fair value based on the prices of the underlying funds. The unit value of the pooled accounts is calculated by dividing the total value of the assets of the account by the number of units in the account. Units of pooled investments are classified as Level 3 investments. An organization may make one aggregate distribution request during any 12 month period of up to \$2.5 million without advance notice.

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.

## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Mission's assets at fair value as of September 30, 2018 and 2017:

Assets at Fair Value as of September 30, 2018				
	Level 1	Level 2	Level 3	Total
Common stock:				
Large Value Equity	\$ 44,693	\$ -	\$ -	\$ 44,693
Large Growth Equity	47,080	-	-	47,080
Small Value Equity	41,182	-	-	41,182
Mid Value Equity	21,763	-	-	21,763
Large Core Equity	30,432	-	-	30,432
Financial	2,775	-	-	2,775
Foreign Large Blend	989	-	-	989
Interest in trusts	-	69,338	-	69,338
Certificates of deposit	-	1,116,914	-	1,116,914
Beneficial interest in assets held by Community Foundation for Greater Buffalo	-	-	516,870	516,870
Money market funds	6,602	-	-	6,602
<b>Total assets at fair value</b>	<b>\$ 195,516</b>	<b>\$ 1,186,252</b>	<b>\$ 516,870</b>	<b>\$ 1,898,638</b>

Assets at Fair Value as of September 30, 2017				
	Level 1	Level 2	Level 3	Total
Common stock:				
Large Value Equity	\$ 36,204	\$ -	\$ -	\$ 36,204
Large Growth Equity	34,254	-	-	34,254
Small Value Equity	28,647	-	-	28,647
Mid Value Equity	18,755	-	-	18,755
Large Core Equity	10,662	-	-	10,662
Foreign Large Blend	1,020	-	-	1,020
Interest in trusts	-	58,355	-	58,355
Certificates of deposit	-	1,421,702	-	1,421,702
Beneficial interest in assets held by Community Foundation for Greater Buffalo	-	-	483,200	483,200
Money market funds	4,485	-	-	4,485
<b>Total assets at fair value</b>	<b>\$ 134,027</b>	<b>\$ 1,480,057</b>	<b>\$ 483,200</b>	<b>\$ 2,097,284</b>

The table below sets forth a summary of changes in the fair value of the Foundation's Level III investments for the year ended September 30:

	2018	2017
Balance as of beginning of year	\$ 483,200	\$ 423,936
Purchases	-	-
Interest and dividends	6,418	5,472
Fees	(3,957)	(3,535)
Unrealized gains	31,209	57,327
<b>Balance as of end of year</b>	<b>\$ 516,870</b>	<b>\$ 483,200</b>



# CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 10) 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 years ended September 30, 2018 and 2017 the Mission made no partnership contributions to Cornerstone. During the year ended September 30, 2018, the Mission received a return of capital of \$68,118 from Cornerstone (\$100,000 - 2017). The Mission records its investment in Cornerstone on the equity method.

During the year ended September 30, 2018 the Mission recorded a loss on the investment in Cornerstone of \$6,583 (\$6,459 - 2017) resulting in an investment in affiliate as of September 30, 2018 of \$591,504 (\$666,275 - 2017). This investment consists of an investment balance of \$375,435 for Cornerstone Partner, LLC, the General Partner (\$443,571 - 2017) and of an investment in affiliate as of September 30, 2018 of \$216,069 for Manor Partner, Inc., the Special Limited Partner (\$222,704 - 2017).

The following represents condensed financial information for the partnership at September 30:

	<u>2018</u>	<u>2017</u>
Net book value of properties	\$ 6,110,706	\$ 6,548,670
Less recourse debt	<u>1,577,361</u>	<u>1,609,169</u>
	4,533,345	4,939,501
Other liabilities, net	<u>3,698,400</u>	<u>3,698,400</u>
Net equity	<u>\$ 834,945</u>	<u>\$ 1,241,101</u>
Revenues	\$ 349,696	\$ 307,547
Costs and other expenses	<u>687,734</u>	<u>674,629</u>
Operating (loss)	<u>\$ (338,038)</u>	<u>\$ (367,082)</u>

The net amount owed to Cornerstone from the Mission at September 30, 2018 was \$158 (\$7,955 - 2017). Presentation of the net amount owed is included on the accompanying Statements 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:

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

- 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, 2018. Accordingly, no liability has been recorded.

#### **NOTE 8. INVESTMENTS IN WESELYAN INVESTMENT FOUNDATION**

The Mission has three savings accounts with the Wesleyan Investment Foundation (WIF) at September 30, 2018. The WIF is a non-profit corporation that provides loans and faith based savings opportunities for the sole purpose of assisting churches in financing building projects. The Mission's investments in WIF are guaranteed a 2% rate of interest. Interest accrues daily and is compounded semi-annually. The Mission can withdraw these funds at any time, with the exception of withdrawal requests exceeding \$100,000, which require a 30 day notice. Investments in WIF are not federally insured. The Mission's investments in WIF amounted to \$1,136,624 as of September 30, 2018 (\$1,812,623 - 2017) and are included in cash and cash equivalents and the special purpose reserve.

#### **NOTE 9. 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 5.00% plus 1.5% (4.25% - 2017). There was no outstanding balance as of September 30, 2018 or 2017. The line of credit is collateralized by a general security interest in the assets of the Mission. Subsequent to year end this line of credit was replaced with a line of credit from a different financial institution (see Note 19).

#### **NOTE 10. 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 - 2017). 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 7). 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 2018 and 2017.

During the year ended September 30, 2018, the Mission returned the purchased vehicle and paid \$4,603 to satisfy the outstanding vehicle loan (\$32,356 - 2017).

#### **NOTE 11. NET ASSETS**

Included in unrestricted net assets at September 30, 2018 is \$553,678 (\$650,024 - 2017) of net assets designated by the board to support the operations of the Women's and Children's program at Cornerstone (see Note 2).

## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### NOTE 11. NET ASSETS (CONTINUED)

There were \$5,534,387 temporarily restricted net assets as of September 30, 2018 (\$2,286,067 - 2017). The temporarily restricted net assets represent the Mission's beneficial interest in a charitable remainder trust as well as pledges and contributions for the capital campaign. There are no restrictions on the use of the charitable remainder trust funds once received from the trust, the amount is currently time restricted. The funds relating to the capital campaign are purpose restricted and may only be released from restriction for use toward the men's facility expansion project.

As of September 30, 2018, permanently restricted net assets of \$133,778 (\$122,795 - 2017) represented 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 two perpetual trusts (See Note 18).

#### NOTE 12. 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, 2018 or 2017.

#### NOTE 13. OPERATING LEASES

**Equipment and Property:** The Mission has an operating lease for a thrift store located in the Dick Urban Plaza. The lease has 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. During 2018, the Mission signed an extension for the office space expiring March 31, 2022. The Mission also has several minor equipment leases.

Future approximate minimum lease payments are as follows:

2019	\$ 180,000
2020	175,000
2021	33,000
2022	<u>8,000</u>
	<u>\$ 396,000</u>

Lease expense relating to these agreements amounted to \$243,789 for the fiscal year ended September 30, 2018 (\$254,494 - 2017).

**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.

## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### NOTE 13. OPERATING LEASES (CONTINUED)

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:

2019	\$ 213,000
2020	217,000
2021	<u>278,000</u>
Total	\$ <u>708,000</u>

The amounts owed per the agreement are reduced by payments that Cornerstone collects from tenants or Erie County. Rent expense relating to the rent support agreement amounted to \$120,326 for the fiscal year ended September 30, 2018 (\$101,290 - 2017).

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

2019	\$ 52,968
2020	54,557
2021	<u>41,831</u>
Total	\$ <u>149,356</u>

Rent expense relating to the lease expense and the additional lease expense for their share of the building expenses amounted to \$128,029 for the fiscal year ended September 30, 2018 (\$106,880 - 2017).

#### NOTE 14. VALUE OF DONATED GOODS

Gifts of food and clothing at September 30, 2018 were valued at \$433,194 (\$464,673 - 2017) and \$837,515 (\$636,777 - 2017), respectively. The value of donated food and clothing recognized was based on the number of meals served at a standard cost of \$2.74 (\$2.46 - 2017) per meal, the number of grocery bags distributed at a standard cost of \$25 (\$25 - 2017) per bag, and the number of bags of clothing distributed to clients at a standard cost of \$120 (\$120 - 2017) per bag. Donated automobiles at September 30, 2018 were valued at \$2,050 (\$1,500 - 2017).

#### NOTE 15. 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 16. RELATED PARTY TRANSACTIONS

The Mission receives a management fee from Cornerstone for the management and bookkeeping services performed. The management fee received from Cornerstone during the year ended September 30, 2018 amounted to \$10,465 (\$10,260 - 2017).

# CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 17. COMMITMENTS AND CONTINGENCIES

The Mission has been named in certain legal actions in the normal course of business. In the opinion of management, the Mission has adequate legal defenses and does not anticipate any adverse judgments which would materially affect its financial position.

### NOTE 18. ENDOWMENT

The Mission's endowment consists of one individual fund which is permanently restricted in the amount of \$100,000 at September 30, 2018 (\$100,000 - 2017) and the Mission's \$33,778 (\$22,795 - 2017) beneficial interest in a perpetual trusts. 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

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, 2018 and 2017. 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:

	2018			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 30,620	\$ 100,000	\$ 130,620
Perpetual charitable trusts	-	-	33,778	33,778
September 30, 2018	\$ -	\$ 30,620	\$ 133,778	\$ 164,398

## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 18. ENDOWMENT (CONTINUED)

	2017			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 22,111	\$ 100,000	\$ 122,111
Perpetual charitable trusts	-	-	22,795	22,795
September 30, 2017	<u>\$ -</u>	<u>\$ 22,111</u>	<u>\$ 122,795</u>	<u>\$ 144,906</u>

Changes in the Mission's endowment net assets for the year ended September 30, 2018 and 2017 are as follows:

	2018			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net asset October 1, 2017	\$ -	\$ 22,111	\$ 122,795	\$ 144,906
Investment return:				
Contribution	-	-	9,659	9,659
Investment income	-	8,509	1,324	9,833
Endowment net assets September 30, 2018	<u>\$ -</u>	<u>\$ 30,620</u>	<u>\$ 133,778</u>	<u>\$ 164,398</u>

	2017			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net asset October 1, 2016	\$ -	\$ 7,134	\$ 122,795	\$ 129,929
Investment return:				
Investment income	-	14,977	-	14,977
Endowment net assets September 30, 2017	<u>\$ -</u>	<u>\$ 22,111</u>	<u>\$ 122,795</u>	<u>\$ 144,906</u>

## NOTE 19. SUBSEQUENT EVENTS

On December 19, 2018, the Mission entered into with Evans Bank, N.A., a construction loan for \$5,250,000, a construction bridge loan for \$5,000,000, and a revolving line of credit for \$200,000. At closing approximately \$216,000 was advanced from the construction loan for closing costs. The construction loan will convert to a permanent mortgage once construction is complete. During the construction period interest only payments will be paid monthly. The construction bridge loan requires interest only payments for 48 months at which time the principal balance will be repaid in full. The construction loans both have a fixed interest rate of 5.72%. The line of credit will have a variable interest rate equal to the prime rate plus one percent. The loans will be secured by the building.

These financial statements have not been updated for subsequent events occurring after December 31, 2018, which is the date these financial statements were available to be issued.