

AUDITED
CONSOLIDATED FINANCIAL STATEMENTS

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

SEPTEMBER 30, 2012

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
City Mission Society, Inc.

We have audited the accompanying consolidated statements of financial position of City Mission Society, Inc. and Subsidiaries (a nonprofit organization) as of September 30, 2012 and 2011, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets, its functional expenses and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 21, 2013

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30,

ASSETS	2012	2011
Current assets:		
Cash	\$ 162,883	\$ 43,380
Contributions receivable	130,040	348,801
Other receivables	30,237	24,819
Inventory	26,655	26,655
Prepaid expenses and other current assets	23,104	31,122
Total current assets	<u>372,919</u>	<u>474,777</u>
Investments	79,338	56,999
Special purpose reserve	1,475,713	1,489,502
Land, buildings and equipment, net	1,420,335	1,266,959
Other assets:		
Note receivable	523,600	523,600
Beneficial interest in perpetual trust	23,431	21,796
Investments in affiliate	741,182	741,445
	<u>1,288,213</u>	<u>1,286,841</u>
	<u>\$ 4,636,518</u>	<u>\$ 4,575,078</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 208,161	\$ 232,434
Accrued expenses	138,759	162,223
Current portion of note payable	8,387	-
Total current liabilities	<u>355,307</u>	<u>394,657</u>
Long-term liabilities:		
Related party payable	176,872	107,062
Notes payable	559,246	523,600
Total liabilities	<u>1,091,425</u>	<u>1,025,319</u>
Net assets:		
Unrestricted	3,421,662	3,344,413
Temporarily restricted	-	83,550
Permanently restricted	123,431	121,796
Total net assets	<u>3,545,093</u>	<u>3,549,759</u>
	<u>\$ 4,636,518</u>	<u>\$ 4,575,078</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, 2012

(with Summarized Information for the Year Ended September 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
Revenue:					
Public support:					
Donations from individuals, businesses and churches	\$ 3,953,530	\$ 85,000	\$ -	\$ 4,038,530	\$ 3,858,343
Food and clothing donations	1,062,715	-	-	1,062,715	909,273
Grants	565,078	-	-	565,078	551,023
Bequests and memorials	233,916	-	-	233,916	592,640
Automobiles donated	1,700	-	-	1,700	3,600
Net assets released from restrictions	168,550	(168,550)	-	-	-
Total public support	5,985,489	(83,550)	-	5,901,939	5,914,879
Other revenue (expense):					
Thrift store revenue	435,358	-	-	435,358	403,025
Rags salvage revenue	159,423	-	-	159,423	116,940
Interest and dividends	72,862	-	-	72,862	65,584
Mission motors revenue	6,155	-	-	6,155	13,732
Management fee revenue	9,180	-	-	9,180	9,110
Miscellaneous revenue	10,290	-	-	10,290	8,625
Loss on investment in subsidiary	(263)	-	-	(263)	(5,421)
Realized and unrealized gain (loss) on investments	41,721	-	1,635	43,356	(9,017)
Loss on sale of fixed assets	-	-	-	-	(32,735)
Total other revenue	734,726	-	1,635	736,361	569,843
Total revenue	6,720,215	(83,550)	1,635	6,638,300	6,484,722
Expenses:					
Program services	4,599,235	-	-	4,599,235	4,415,269
Fundraising	1,676,525	-	-	1,676,525	1,447,137
Management and general	367,206	-	-	367,206	293,119
Total expenses	6,642,966	-	-	6,642,966	6,155,525
Change in net assets	77,249	(83,550)	1,635	(4,666)	329,197
Net assets - beginning	3,344,413	83,550	121,796	3,549,759	3,220,562
Net assets - ending	\$ 3,421,662	\$ -	\$ 123,431	\$ 3,545,093	\$ 3,549,759

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended September 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2011</u>
Revenue:				
Public support:				
Donations from individuals, businesses and churches	\$ 3,726,547	\$ 110,000	\$ 21,796	\$ 3,858,343
Food and clothing donations	909,273	-	-	909,273
Grants	551,023	-	-	551,023
Bequests and memorials	592,640	-	-	592,640
Automobiles donated	3,600	-	-	3,600
Net assets released from restrictions	26,450	(26,450)	-	-
Total public support	<u>5,809,533</u>	<u>83,550</u>	<u>21,796</u>	<u>5,914,879</u>
Other revenue:				
Thrift store revenue	403,025	-	-	403,025
Rags salvage revenue	116,940	-	-	116,940
Interest and dividends	65,584	-	-	65,584
Mission motors revenue	13,732	-	-	13,732
Management fee revenue	9,110	-	-	9,110
Miscellaneous revenue	8,625	-	-	8,625
Loss on investment in subsidiary	(5,421)	-	-	(5,421)
Realized and unrealized loss on investments	(9,017)	-	-	(9,017)
Gain on sale of fixed assets	(32,735)	-	-	(32,735)
Total other revenue	<u>569,843</u>	<u>-</u>	<u>-</u>	<u>569,843</u>
Total revenue	6,379,376	83,550	21,796	6,484,722
Expenses:				
Program services	4,415,269	-	-	4,415,269
Fundraising	1,447,137	-	-	1,447,137
Management and general	293,119	-	-	293,119
Total expenses	<u>6,155,525</u>	<u>-</u>	<u>-</u>	<u>6,155,525</u>
Change in net assets	223,851	83,550	21,796	329,197
Net assets - beginning	<u>3,120,562</u>	<u>-</u>	<u>100,000</u>	<u>3,220,562</u>
Net assets - ending	<u>\$ 3,344,413</u>	<u>\$ 83,550</u>	<u>\$ 121,796</u>	<u>\$ 3,549,759</u>

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2012

(with Summarized Information for the Year Ended September 30, 2011)

	Men's	Women's	Retail	Supporting Service Total Program
Salaries	\$ 644,377	\$ 877,642	\$ 225,174	\$ 1,747,193
Employee benefits	117,314	155,653	46,372	319,339
Unemployment	8,649	16,625	-	25,274
Payroll taxes	47,439	67,502	17,053	131,994
Total salaries and benefits	817,779	1,117,422	288,599	2,223,700
Resident aid and direct assistance	20,081	15,096	-	35,177
Membership dues and expenses	6,706	2,118	-	8,824
Professional fees	-	-	-	-
Payroll processing fees	-	-	-	-
Bank fees	-	-	5,606	5,606
Taxes and licenses	1,252	357	-	1,609
Insurance	14,892	3,115	13,144	31,151
Utilities	94,408	12,534	34,765	141,707
Computer expenses	36,129	37,681	10,099	83,909
Office expenses	1,145	9,402	613	11,160
Repairs and maintenance	24,803	4,772	4,040	33,615
Subscriptions	55	404	-	459
Travel and entertainment	410	6,795	81	7,286
Printing and advertising	-	-	1,500	1,500
Seminars	1,795	9,494	-	11,289
Vehicles operating expense	7,735	-	29,433	37,168
Janitorial expense	31,955	22,775	-	54,730
Fundraising and mailing expense	-	81	-	81
Other consultants	15,754	12,119	-	27,873
Food purchases	31,002	23,284	-	54,286
Donated food	281,524	82,101	-	363,625
Donated clothing	71,164	35,051	592,780	698,995
Kitchen supplies	15,064	8,791	-	23,855
Laundry and linen supplies	6,909	90	-	7,000
Rent/lease	33,041	273,326	218,419	824,786
Miscellaneous	206	-	-	206
Equipment under \$1,000	3,047	4,945	-	7,992
Donated automobiles	-	-	1,700	1,700
Supplies	2,645	3,051	1,887	7,583
Total before depreciation	1,519,501	1,684,804	1,202,666	4,406,971
Depreciation	183,645	4,065	4,554	192,264
Total functional expenses	\$ 1,703,146	\$ 1,688,869	\$ 1,207,220	\$ 4,599,235

See account

Supporting Services

Total Program	Fund Raising	Management And General	Total Supporting	Total All Services	
				2012	2011
\$ 1,747,193	\$ 172,510	\$ 134,340	\$ 306,850	\$ 2,054,043	\$ 2,047,282
319,339	33,903	21,269	55,172	374,511	396,473
25,274	-	13,892	13,892	39,166	5,163
131,994	13,131	10,232	23,363	155,357	151,778
<u>2,223,800</u>	<u>219,544</u>	<u>179,733</u>	<u>399,277</u>	<u>2,623,077</u>	<u>2,600,696</u>
35,177	-	-	-	35,177	24,735
8,824	-	8,175	8,175	16,999	18,554
-	-	41,711	41,711	41,711	24,099
-	-	4,124	4,124	4,124	4,016
5,606	12,853	55,504	68,357	73,963	25,830
1,609	-	4,250	4,250	5,859	5,284
31,151	-	2,398	2,398	33,549	31,971
141,707	-	-	-	141,707	154,306
83,909	-	-	-	83,909	117,044
11,160	4,596	5,508	10,104	21,264	23,328
33,615	-	-	-	33,615	36,566
459	-	478	478	937	3,175
7,286	7,392	31,905	39,297	46,583	35,762
1,500	196,577	-	196,577	198,077	167,706
11,289	650	-	650	11,939	4,770
37,168	-	-	-	37,168	32,177
54,730	-	-	-	54,730	40,021
81	1,132,202	1,642	1,133,844	1,133,925	892,150
27,873	102,314	8,752	111,066	138,939	159,145
54,286	-	-	-	54,286	51,126
363,625	-	-	-	363,625	313,410
698,995	-	-	-	698,995	595,863
23,855	-	-	-	23,855	26,222
6,999	-	-	-	6,999	5,707
524,786	-	1,448	1,448	526,234	535,530
206	-	-	-	206	5,688
7,992	397	484	881	8,873	13,845
1,700	-	-	-	1,700	3,600
7,583	-	11,072	11,072	18,655	17,715
<u>4,406,971</u>	<u>1,676,525</u>	<u>357,184</u>	<u>2,033,709</u>	<u>6,440,680</u>	<u>5,970,041</u>
192,264	-	10,022	10,022	202,286	185,484
<u>\$ 4,599,235</u>	<u>\$ 1,676,525</u>	<u>\$ 367,206</u>	<u>\$ 2,043,731</u>	<u>\$ 6,642,966</u>	<u>\$ 6,155,525</u>

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2011

	Men's	Women's	Retail	Support
Salaries	\$ 604,934	\$ 908,936	\$ 204,451	\$
Employee benefits	140,250	168,887	32,503	
Unemployment	1,025	(159)	-	
Payroll taxes	44,677	66,471	15,473	
Total salaries and benefits	790,886	1,144,135	252,427	
Resident aid and direct assistance	19,191	5,544	-	
Membership dues and expenses	4,481	2,791	-	
Professional fees	-	-	-	
Payroll processing fees	-	-	-	
Bank fees	-	-	5,699	
Taxes and licenses	472	284	-	
Insurance	14,699	3,375	10,188	
Utilities	102,630	17,227	34,449	
Computer expenses	50,885	49,034	16,352	
Office expenses	1,365	7,174	321	
Repairs and maintenance	29,068	5,649	1,849	
Subscriptions	1,305	37	759	
Travel and entertainment	129	6,622	420	
Printing and advertising	-	-	325	
Seminars	1,414	3,356	-	
Vehicles operating expense	5,901	-	26,276	
Janitorial expense	24,104	15,917	-	
Fundraising and mailing expense	105	268	-	
Other consultants	11,834	7,569	3,000	
Food purchases	14,789	36,337	-	
Donated food	241,575	71,835	-	
Donated clothing	52,080	26,040	517,743	
Kitchen supplies	21,287	4,935	-	
Laundry and linen supplies	5,459	248	-	
Rent/lease	22,944	287,442	219,457	
Miscellaneous	-	-	5,688	
Equipment under \$1,000	11,707	1,598	-	
Vehicle repairs and improvements	-	-	-	
Purchased vehicles	-	-	-	
Donated automobiles	-	-	3,600	
Supplies	1,632	5,458	2,571	
Total before depreciation	1,429,942	1,702,875	1,101,124	
Depreciation	174,269	1,094	5,965	
Total functional expenses	\$ 1,604,211	\$ 1,703,969	\$ 1,107,089	\$

See accomp

Supporting Services

Total Program	Fund Raising	Management And General	Total Supporting	Total All Services
1,718,321	\$ 202,886	\$ 126,075	\$ 328,961	\$ 2,047,282
341,640	35,039	19,794	54,833	396,473
866	-	4,297	4,297	5,163
126,621	15,402	9,755	25,157	151,778
2,187,448	253,327	159,921	413,248	2,600,696
24,735	-	-	-	24,735
7,272	-	11,282	11,282	18,554
-	-	24,099	24,099	24,099
-	-	4,016	4,016	4,016
5,699	9,837	10,294	20,131	25,830
756	-	4,528	4,528	5,284
28,262	-	3,709	3,709	31,971
154,306	-	-	-	154,306
116,271	773	-	773	117,044
8,860	4,650	9,818	14,468	23,328
36,566	-	-	-	36,566
2,101	-	1,074	1,074	3,175
7,171	2,905	25,686	28,591	35,762
325	167,381	-	167,381	167,706
4,770	-	-	-	4,770
32,177	-	-	-	32,177
40,021	-	-	-	40,021
373	891,453	324	891,777	892,150
22,403	116,811	19,931	136,742	159,145
51,126	-	-	-	51,126
313,410	-	-	-	313,410
595,863	-	-	-	595,863
26,222	-	-	-	26,222
5,707	-	-	-	5,707
529,843	-	5,687	5,687	535,530
5,688	-	-	-	5,688
13,305	-	540	540	13,845
-	-	-	-	-
-	-	-	-	-
3,600	-	-	-	3,600
9,661	-	8,054	8,054	17,715
4,233,941	1,447,137	288,963	1,736,100	5,970,041
181,328	-	4,156	4,156	185,484
4,415,269	\$ 1,447,137	\$ 293,119	\$ 1,740,256	\$ 6,155,525

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

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

	2012	2011
Cash flows from operating activities:		
Changes in net assets	\$ (4,666)	\$ 329,197
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	202,286	185,484
Donated stock	(3,858)	-
(Gain) loss on beneficial interest in perpetual trust	-	(21,796)
Interest earned on investments	(54,015)	(65,142)
Loss on investment in affiliate	263	5,421
Net realized and unrealized (gain) loss on investments	(43,356)	9,017
Loss on disposal of furniture and equipment	-	32,735
Grants and contributions restricted for fixed assets	-	(290,831)
(Increase) decrease in:		
Other receivables	(5,418)	3,170
Prepaid expenses and other current assets	8,018	3,563
Contributions receivable	218,761	(167,970)
Increase (decrease) in:		
Accounts payable and accrued expenses	(47,737)	(35,694)
Related party payable	69,810	(57,699)
Net cash provided (used) by operating activities	340,088	(70,545)
Cash flows from investing activities:		
Withdrawals from restrict special purpose reserve	91,044	86,974
Purchases of fixed assets	(305,339)	(243,381)
Net cash used by investing activities	(214,295)	(156,407)
Cash flows from financing activities:		
Repayments on demand note, net	-	(29,829)
Contributions restricted for long term purposes	-	290,831
Repayments of long-term debt	(6,290)	-
Net cash (used) provided by financing activities	(6,290)	261,002
Net change in cash and cash equivalents	119,503	34,050
Cash - beginning of year	43,380	9,330
Cash - end of year	<u>\$ 162,883</u>	<u>\$ 43,380</u>
Supplemental information:		
Donated clothes, food and automobiles	<u>\$ 1,064,415</u>	<u>\$ 912,873</u>
Cash paid for interest	<u>\$ 83</u>	<u>\$ 639</u>
Debt forgiven in lieu of returned property	<u>\$ -</u>	<u>\$ 15,000</u>
Capital assets acquired with debt	<u>\$ 50,323</u>	<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 6). 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, 2012 and 2011 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, 2012 or 2011.

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, 2012 and 2011.

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 4 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, 2012 are bequests receivable in the amount of \$85,344, which are unrestricted by the donors (\$348,801 - 2011). 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, 2012 and 2011.

Grant Revenue: Grant revenue is recorded as revenue when expenditures have been incurred in compliance with the grant requirements. During the year ended September 30, 2011 the Mission was awarded the Continuum of Care Homeless Assistance Program from the U.S. Department of Housing and Urban Development (HUD) in the amount of \$1,050,000. As of September 30, 2012 \$123,064 of this grant has been expended and is included in grant revenue. Of this amount, \$44,696 is included in contributions receivable as of September 30, 2012 (\$0 - 2011).

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.

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.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 it's Annual Filing of Charitable Organization in New York State. The tax years ended September 30, 2009 - September 30, 2012 generally remain open to examination in taxing jurisdictions in which the Mission is subject to filing requirements of those jurisdictions.

Reclassification: Certain 2011 balances were reclassified to conform with the current year presentation.

Subsequent Event: These financial statements have not been updated for subsequent events occurring after March 21, 2013 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 6). 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, 2012 are \$1,254,253 (\$1,378,865 - 2011), 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, 2012, the Mission withdrew \$91,043 (\$86,974 - 2011) of this reserve account to fund the operating losses incurred by Cornerstone (see Note 6). The reserve account earned \$60,335 of interest, dividends and unrealized gains during the year ended September 30, 2012 (\$59,380 - 2011). (See Note 4 for summary of investments.)

A summary of the investments that comprise the Special Purpose Reserve are as follows:

	<u>September 30,</u>	
	<u>2012</u>	<u>2011</u>
Certificates of deposit	\$ 1,403,011	\$ 1,351,862
Cash	-	90,998
Common stock	55,747	43,317
Money market funds	<u>16,955</u>	<u>3,325</u>
	<u>\$ 1,475,713</u>	<u>\$ 1,489,502</u>

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LAND, BUILDINGS, EQUIPMENT AND DEPRECIATION

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

	<u>Estimated Useful Life</u>	<u>2012</u>	<u>2011</u>
Land and buildings:			
Mission Tupper Street	31.5 years	\$ 3,025,026	\$ 2,852,791
Other donated land	-	11,089	11,089
Equipment and furnishings	5 to 7 years	1,633,911	1,500,807
Vehicles	5 to 7 years	<u>146,228</u>	<u>95,905</u>
		<u>4,816,254</u>	<u>4,460,592</u>
Less: Accumulated depreciation		<u>(3,395,919)</u>	<u>(3,193,633)</u>
		<u>\$ 1,420,335</u>	<u>\$ 1,266,959</u>

Depreciation expense for the year ended September 31, 2012 amounted to \$202,286 (\$185,484 - 2011).

NOTE 4. INVESTMENTS AND SPECIAL PURPOSE RESERVE

Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under 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, 2012 and 2011.

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 2 investment.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. INVESTMENTS AND SPECIAL PURPOSE RESERVE (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.

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.

The following table sets forth by level, within the fair value hierarchy, the Mission's assets at fair value as of September 30, 2012 and 2011:

Assets at Fair Value as of September 30, 2012				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock:				
Large Value Equity	\$ 80,464	\$ -	\$ -	\$ 80,464
Large Growth Equity	26,014	-	-	26,014
Mid Value Equity	12,530	-	-	12,530
Large Core Equity	5,068	-	-	5,068
Small Value Equity	381	-	-	381
Certificates of deposit	-	1,403,011	-	1,403,011
Money market funds	-	27,583	-	27,583
Total assets at fair value	\$ <u>124,457</u>	\$ <u>1,430,594</u>	\$ <u>-</u>	\$ <u>1,555,051</u>

Assets at Fair Value as of September 30, 2011				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock:				
Large Value Equity	\$ 56,914	\$ -	\$ -	\$ 56,914
Large Growth Equity	23,761	-	-	23,761
Mid Value Equity	6,887	-	-	6,887
Large Core Equity	4,170	-	-	4,170
Small Value Equity	137	-	-	137
Certificates of deposit	-	1,442,860	-	1,442,860
Money market funds	-	11,772	-	11,772
Total assets at fair value	\$ <u>91,869</u>	\$ <u>1,454,632</u>	\$ <u>-</u>	\$ <u>1,546,501</u>

The above tables include common stocks and money market funds held in both the Mission's investment accounts and Special Purpose Reserve.

NOTE 5. 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 8) 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.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. INVESTMENT IN AFFILIATE AND ADVANCE TO AFFILIATE

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, 2012, the Mission made \$5,313 of partnership contributions to Cornerstone (\$0 - 2011). The Mission records its investment on the equity method. During the year ended September 30, 2012 the Mission recorded a loss on the investment in Cornerstone of \$263 (\$5,421 - 2011), resulting in an investment in affiliate as of September 30, 2012 of \$741,182 (\$741,445 - 2011). This investment consists of an investment balance of \$543,659 for Cornerstone Partner, LLC, the General Partner (\$543,676 - 2011) and of an investment in affiliate as of September 30, 2012 of \$197,523 for Manor Partner, Inc., the Special Limited Partner (\$197,769 - 2011).

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

	<u>2012</u>	<u>2011</u>
Net book value of properties	\$ 8,334,495	\$ 8,635,709
Less recourse debt	<u>1,655,882</u>	<u>1,607,544</u>
	<u>6,678,613</u>	<u>7,028,165</u>
Other liabilities, net	<u>3,698,400</u>	<u>3,698,400</u>
Net equity	<u>\$ 2,980,213</u>	<u>\$ 3,329,765</u>
Revenues	\$ 272,991	\$ 287,482
Costs and other expenses	<u>622,543</u>	<u>695,228</u>
Operating income (loss)	<u>\$ (349,552)</u>	<u>\$ (407,746)</u>
Loss on investment in subsidiary:		
Operating loss	\$ <u>(263)</u>	\$ <u>(5,421)</u>
Total loss on investment in subsidiary	<u>\$ (263)</u>	<u>\$ (5,421)</u>

The amounts owed to Cornerstone totaled \$176,872 as of September 30, 2012 (\$107,062 - 2011) and 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.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. INVESTMENT IN AFFILIATE AND ADVANCE TO AFFILIATE (CONTINUED)

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, 2012. Accordingly, no liability has been recorded.

NOTE 7. 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% - 2012). There was no outstanding balance as of September 30, 2012 (\$0 - 2011). The line of credit is collateralized by a general security interest in the assets of the Mission.

NOTE 8. 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 - 2011). 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 5). Any amounts received from the affiliate under the related note receivable described in Note 5 are due to the Federal Home Loan Bank. No amounts have been received during 2012 and 2011.

The Mission has a note payable to a bank for the purchase of a 2011 Chevrolet Tahoe. The note payable is for 6 years at 0% interest. As of September 31, 2012 there was \$44,033 outstanding on this note.

Annual maturities of this note payable subsequent to September 30, 2012 are as follows:

2013	\$ 8,387
2014	8,387
2015	8,387
2016	8,387
Thereafter	<u>10,485</u>
	<u>\$ 44,033</u>

NOTE 9. NET ASSETS

Included in unrestricted net assets at September 30, 2012 is \$1,254,253 (\$1,378,865 - 2011) of net assets designated by the board to support the operations of the Women's and Children's program at Cornerstone (see Note 2). In addition, there are funds totaling \$2,070 that the board has designated as of September 30, 2012 (\$3,066 - 2011).

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. NET ASSETS (CONTINUED)

There were no temporarily restricted net assets as of September 30, 2012 (\$83,500 - 2011). The net assets that were temporarily restricted at September 30, 2011 were released from restriction during the year ended September 30, 2012 and used for an IT infrastructure upgrade.

Permanently restricted net assets of \$123,431 (\$121,796 - 2011) 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 15).

NOTE 10. 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, 2012 or 2011.

NOTE 11. OPERATING LEASES

Equipment and Property: The Mission has an operating lease for a thrift store located in the Dick Urban Plaza. The lease expires April 30, 2013, and has a seven year renewal extension available. The Mission also has several minor equipment leases.

Future approximate minimum lease payments are as follows:

2013	\$ 125,000
2014	12,000
2015	7,000
2016	<u>6,000</u>
	<u>\$ 150,000</u>

Lease expense relating to these agreements amounted to \$220,721 for the fiscal year ended September 30, 2012 (\$247,588 - 2011).

The Dick Urban Plaza 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.

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

NOTE 11. 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:

2013	\$ 189,000
2014	193,000
2015	197,000
2016	201,000
2017	205,000
Thereafter	<u>918,000</u>
Total	\$ <u>1,903,000</u>

Rent expense relating to the rent support agreement amounted to \$185,847 for the fiscal year ended September 30, 2012 (\$182,204 - 2011).

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

2013	\$ 44,360
2014	45,690
2015	47,061
2016	48,473
2017	49,927
Thereafter	<u>200,781</u>
Total	\$ <u>456,292</u>

Rent expense relating to the lease expense and the additional lease expense for their share of the building expenses amounted to \$87,479 for the fiscal year ended September 30, 2012 (\$105,238 - 2011).

NOTE 12. VALUE OF DONATED GOODS

Gifts of food and clothing at September 30, 2012 were valued at \$363,720 (\$313,410 - 2011) and \$698,995 (\$595,863 - 2011), respectively. The value of donated food and clothing recognized was based on the number of meals served at a standard cost of \$1.98 (\$1.98 - 2011) per meal, the number of grocery bags distributed at a standard cost of \$25 (\$25 - 2011) per bag, and the number of bags of clothing distributed to clients at a standard cost of \$120 (\$120 - 2011) per bag. Donated automobiles at September 30, 2012 were valued at \$1,700 (\$3,600 - 2011).

NOTE 13. 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.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. 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, 2012 amounted to \$9,180 (\$9,110 - 2011).

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, 2012, \$570,419 of this amount has been received. The remaining \$227,081 will be paid out of excess operating cash flow of Cornerstone. Due to uncertainty of the collectibility of this amount the related revenue and receivable are not recorded until deemed collectible or collected.

NOTE 15. ENDOWMENT

The Mission's endowment consists of one individual fund which is permanently restricted in the amount of \$100,000 at September 30, 2012 (\$100,000 - 2011) and the Mission's \$23,431 (\$21,796 - 2011) 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.

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 that are reported in unrestricted net assets were \$20,662 as of September 30, 2012 (\$43,001 - 2011). These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Mission.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. ENDOWMENT (CONTINUED)

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

	<u>2012</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ (20,662)	\$ -	\$ 123,431	\$ 102,769

	<u>2011</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ (43,001)	\$ -	\$ 121,796	\$ 78,795

Changes in the Foundation's endowment net asset for the year ended September 30, 2012 and 2011 are as follows:

	<u>2012</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net asset October 1, 2011	\$ (43,001)	\$ -	\$ 121,796	\$ 78,795
Contributions	-	-	-	-
Investment return:				
Investment income and change in beneficial interest	2,180	-	1,635	3,815
Unrealized gain	<u>20,159</u>	<u>-</u>	<u>-</u>	<u>20,159</u>
Endowment net assets September 30, 2012	<u>\$ (20,662)</u>	<u>\$ -</u>	<u>\$ 123,431</u>	<u>\$ 102,769</u>

	<u>2011</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net asset October 1, 2010	\$ (39,746)	\$ -	\$ 100,000	\$ 60,254
Contributions	-	-	21,796	21,796
Investment return:				
Investment income	1,947	-	-	1,947
Unrealized loss	<u>(5,202)</u>	<u>-</u>	<u>-</u>	<u>(5,202)</u>
Endowment net assets September 30, 2011	<u>\$ (43,001)</u>	<u>\$ -</u>	<u>\$ 121,796</u>	<u>\$ 78,795</u>