

AUDITED
CONSOLIDATED FINANCIAL STATEMENTS

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

SEPTEMBER 30, 2014

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of City Mission Society, Inc. and Subsidiaries which comprise the statement of financial position as of September 30, 2014 and 2013, 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 and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of City Mission Society, Inc. and Subsidiaries as of September 30, 2014 and 2013, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Expenditures of Federal Awards as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations on page 21 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2015 on our consideration of City Mission Society, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City Mission Society, Inc. and Subsidiaries' internal control over financial reporting and compliance.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 20, 2015

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30,

ASSETS	2014	2013
Current assets:		
Cash	\$ 1,260,742	\$ 1,863,373
Contributions and bequests receivable	158,601	50,000
Grants receivable	125,878	27,414
Other receivables	95,728	115,356
Inventory	26,655	26,655
Prepaid expenses and other current assets	17,027	22,014
Total current assets	1,684,631	2,104,812
Investments	1,819,120	85,413
Special purpose reserve	1,128,222	1,271,402
Land, buildings and equipment, net	1,211,382	1,324,216
Other assets:		
Note receivable	523,600	523,600
Beneficial interest in charitable trusts	59,244	58,165
Investments in affiliate	761,461	750,579
	1,344,305	1,332,344
	\$ 7,187,660	\$ 6,118,187
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 181,060	\$ 172,677
Accrued expenses	144,610	162,961
Current portion of note payable	9,443	8,387
Total current liabilities	335,113	344,025
Related party payable	16,982	216,815
Notes payable	577,209	550,859
Net assets:		
Unrestricted	6,099,112	4,848,323
Temporarily restricted	35,498	33,734
Permanently restricted	123,746	124,431
Total net assets	6,258,356	5,006,488
	\$ 7,187,660	\$ 6,118,187

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended September 30, 2014

(with Summarized Information for the Year Ended September 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Total 2013
Revenue:					
Public support:					
Donations from individuals, businesses and churches	\$ 4,472,922	\$ -	\$ -	\$ 4,472,922	\$ 4,566,726
Food, clothing and automobile donations	1,353,963	-	-	1,353,963	1,239,901
Grants	1,204,988	-	-	1,204,988	883,075
Bequests and memorials	1,129,515	-	-	1,129,515	1,016,818
Total public support	8,161,388	-	-	8,161,388	7,706,520
Other revenue (expense):					
Thrift store revenue	426,055	-	-	426,055	432,837
Rags salvage revenue	140,948	-	-	140,948	148,312
Interest and dividends	60,805	-	-	60,805	60,046
Mission motors revenue	2,195	-	-	2,195	4,548
Management fee revenue	9,932	-	-	9,932	9,419
Miscellaneous revenue	18,527	-	-	18,527	12,677
Gain on investment in subsidiary	10,882	-	-	10,882	9,397
Realized and unrealized gain on investments	19,730	1,764	(685)	20,809	11,461
Total other revenue	689,074	1,764	(685)	690,153	688,697
Total revenue	8,850,462	1,764	(685)	8,851,541	8,395,217
Expenses:					
Program services	5,736,907	-	-	5,736,907	5,030,143
Fundraising	1,354,314	-	-	1,354,314	1,518,939
Management and general	508,452	-	-	508,452	384,740
Total expenses	7,599,673	-	-	7,599,673	6,933,822
Change in net assets	1,250,789	1,764	(685)	1,251,868	1,461,395
Net assets - beginning	4,848,323	33,734	124,431	5,006,488	3,545,093
Net assets - ending	\$ 6,099,112	\$ 35,498	\$ 123,746	\$ 6,258,356	\$ 5,006,488

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended September 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2013</u>
Revenue:				
Public support:				
Donations from individuals, businesses and churches	\$ 4,566,726	\$ -	\$ -	\$ 4,566,726
Food and clothing donations	1,239,901	-	-	1,239,901
Grants	883,075	-	-	883,075
Bequests and memorials	983,084	33,734	-	1,016,818
Total public support	<u>7,672,786</u>	<u>33,734</u>	<u>-</u>	<u>7,706,520</u>
Other revenue:				
Thrift store revenue	432,837	-	-	432,837
Rags salvage revenue	148,312	-	-	148,312
Interest and dividends	60,046	-	-	60,046
Mission motors revenue	4,548	-	-	4,548
Management fee revenue	9,419	-	-	9,419
Miscellaneous revenue	12,677	-	-	12,677
Gain on investment in subsidiary	9,397	-	-	9,397
Realized and unrealized gain on investments	10,461	-	1,000	11,461
Total other revenue	<u>687,697</u>	<u>-</u>	<u>1,000</u>	<u>688,697</u>
Total revenue	8,360,483	33,734	1,000	8,395,217
Expenses:				
Program services	5,030,143	-	-	5,030,143
Fundraising	1,518,939	-	-	1,518,939
Management and general	384,740	-	-	384,740
Total expenses	<u>6,933,822</u>	<u>-</u>	<u>-</u>	<u>6,933,822</u>
Change in net assets	1,426,661	33,734	1,000	1,461,395
Net assets - beginning	<u>3,421,662</u>	<u>-</u>	<u>123,431</u>	<u>3,545,093</u>
Net assets - ending	<u>\$ 4,848,323</u>	<u>\$ 33,734</u>	<u>\$ 124,431</u>	<u>\$ 5,006,488</u>

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2014

(with Summarized Information for the Year Ended September 30, 2013)

	Program Services			Supporting Services			Total All Services		
	Program Services	Retail	Total Program	Fund Raising	Capital Campaign	Management And General	Total Supporting	2014	2013
Salaries	\$ 1,971,281	\$ 208,349	\$ 2,179,630	\$ 57,662	\$ 58,780	\$ 155,547	\$ 271,989	\$ 2,451,619	\$ 2,188,067
Employee benefits	326,362	29,728	356,090	12,388	10,336	36,168	58,892	414,982	377,872
Unemployment	12,991	-	12,991	-	-	14,854	14,854	27,845	20,226
Payroll taxes	146,147	15,877	162,024	4,379	4,393	12,324	21,096	183,120	159,923
Total salaries and benefits	2,456,781	253,954	2,710,735	74,429	73,509	218,893	366,831	3,077,566	2,746,088
Resident aid and direct assistance	296,237	-	296,237	-	-	-	-	296,237	33,362
Membership dues and expenses	2,892	-	2,892	-	-	7,413	7,413	10,305	13,822
Professional fees	-	-	-	-	-	53,360	53,360	53,360	36,500
Payroll processing fees	-	-	-	-	-	11,702	11,702	11,702	4,599
Bank fees	-	6,466	6,466	26,674	-	28,189	54,863	61,329	78,240
Taxes and licenses	2,165	-	2,165	-	-	5,750	5,750	7,915	7,754
Insurance	13,585	22,622	36,207	-	-	3,915	3,915	40,122	40,504
Utilities	125,452	37,101	162,553	-	-	-	-	162,553	146,392
Computer expenses	2,383	-	2,383	3	-	-	3	2,386	59,376
Office expenses	21,663	2,799	24,462	167	-	2,454	2,621	27,083	34,384
Repairs and maintenance	32,018	163	32,181	-	-	-	-	32,181	31,537
Subscriptions	1,403	-	1,403	-	-	1,054	1,054	2,457	9,114
Travel and entertainment	12,232	10	12,242	7,040	-	60,160	67,200	79,442	62,496
Printing and advertising	-	-	-	171,749	-	-	171,749	171,749	151,124
Seminars	14,279	-	14,279	713	-	-	713	14,992	19,755
Vehicles operating expense	13,587	22,238	35,825	-	-	-	-	35,825	38,289
Janitorial expense	41,298	2,167	43,465	-	-	-	-	43,465	49,300
Fundraising and mailing expense	6	-	6	778,115	-	3,683	781,798	781,804	1,070,974
Other consultants	58,395	3,467	61,862	146,382	75,533	87,186	309,101	370,963	180,277
Food purchases	108,592	-	108,592	-	-	-	-	108,592	78,371
Donated food	576,926	-	576,926	-	-	-	-	576,926	486,067
Donated clothing	210,240	564,685	774,925	-	-	-	-	774,925	752,594
Kitchen supplies	42,189	-	42,189	-	-	-	-	42,189	34,182
Laundry and linen supplies	8,752	-	8,752	-	-	-	-	8,752	3,801
Rent/lease	326,458	203,758	530,216	-	-	-	-	530,216	503,673
Miscellaneous	-	-	-	-	-	208	208	208	-
Equipment under \$1,000	32,237	-	32,237	-	-	1,041	1,041	33,278	24,351
Donated automobiles	-	1,800	1,800	-	-	-	-	1,800	1,100
Supplies	9,331	1,866	11,197	-	-	13,046	13,046	24,243	22,181
Total before depreciation	4,409,101	1,123,096	5,532,197	1,205,272	149,042	498,054	1,852,368	7,384,565	6,720,207
Depreciation	200,579	4,131	204,710	-	-	10,398	10,398	215,108	213,615
Total functional expenses	\$ 4,609,680	\$ 1,127,227	\$ 5,736,907	\$ 1,205,272	\$ 149,042	\$ 508,452	\$ 1,862,766	\$ 7,599,673	\$ 6,933,822

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2013

	Program Services			Supporting Services			Total All Services
	Program Services	Retail	Total Program	Fund Raising	Management And General	Total Supporting	
Salaries	\$ 1,773,675	\$ 205,884	\$ 1,979,559	\$ 94,894	\$ 113,614	\$ 208,508	\$ 2,188,067
Employee benefits	310,575	30,027	340,602	15,906	21,364	37,270	377,872
Unemployment	10,658	-	10,658	-	9,568	9,568	20,226
Payroll taxes	129,054	15,650	144,704	6,636	8,583	15,219	159,923
Total salaries and benefits	2,223,962	251,561	2,475,523	117,436	153,129	270,565	2,746,088
Resident aid and direct assistance	20,971	-	20,971	-	12,391	12,391	33,362
Membership dues and expenses	385	-	385	-	13,437	13,437	13,822
Professional fees	-	-	-	-	36,500	36,500	36,500
Payroll processing fees	-	-	-	-	4,599	4,599	4,599
Bank fees	-	6,592	6,592	19,867	51,781	71,648	78,240
Taxes and licenses	2,725	250	2,975	-	4,779	4,779	7,754
Insurance	27,238	9,513	36,751	-	3,753	3,753	40,504
Utilities	110,164	36,228	146,392	-	-	-	146,392
Computer expenses	51,686	7,625	59,311	65	-	65	59,376
Office expenses	10,799	787	11,586	1,626	21,172	22,798	34,384
Repairs and maintenance	29,461	2,076	31,537	-	-	-	31,537
Subscriptions	7,829	-	7,829	-	1,285	1,285	9,114
Travel and entertainment	11,874	96	11,970	5,887	44,639	50,526	62,496
Printing and advertising	-	-	-	151,124	-	151,124	151,124
Seminars	16,681	270	16,951	2,524	280	2,804	19,755
Vehicles operating expense	13,670	24,619	38,289	-	-	-	38,289
Janitorial expense	48,720	580	49,300	-	-	-	49,300
Fundraising and mailing expense	-	-	-	1,065,081	5,893	1,070,974	1,070,974
Other consultants	22,518	479	22,997	154,368	2,912	157,280	180,277
Food purchases	78,371	-	78,371	-	-	-	78,371
Donated food	486,067	-	486,067	-	-	-	486,067
Donated clothing	173,160	579,434	752,594	-	-	-	752,594
Kitchen supplies	34,182	-	34,182	-	-	-	34,182
Laundry and linen supplies	3,801	-	3,801	-	-	-	3,801
Rent/lease	311,475	192,198	503,673	-	-	-	503,673
Equipment under \$1,000	12,178	1,644	13,822	961	9,568	10,529	24,351
Donated automobiles	-	1,100	1,100	-	-	-	1,100
Supplies	10,648	1,325	11,973	-	10,208	10,208	22,181
Total before depreciation	3,708,565	1,116,377	4,824,942	1,518,939	376,326	1,895,265	6,720,207
Depreciation	201,164	4,037	205,201	-	8,414	8,414	213,615
Total functional expenses	\$ 3,909,729	\$ 1,120,414	\$ 5,030,143	\$ 1,518,939	\$ 384,740	\$ 1,903,679	\$ 6,933,822

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended September 30,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Changes in net assets	\$ 1,251,868	\$ 1,461,395
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	215,108	213,615
Donated investments	(393,248)	(399)
Donation of interest in charitable remainder trust	-	(33,734)
Interest earned on investments	(59,323)	(56,531)
Gain (loss) on investment in affiliate	(10,882)	(9,397)
Net realized and unrealized gain on investments	(20,809)	(11,461)
Decrease (increase) in:		
Other receivables	19,628	(85,119)
Prepaid expenses and other current assets	4,987	1,090
Contributions, bequests and grants receivable	(207,065)	52,626
Increase (decrease) in:		
Accounts payable and accrued expenses	(9,968)	(11,282)
Related party payable	(199,833)	39,943
Net cash provided by operating activities	<u>590,463</u>	<u>1,560,746</u>
Cash flows from investing activities:		
Withdrawals from restricted special purpose reserve	185,535	265,627
Purchases of investments	(1,303,761)	-
Purchases of fixed assets	(67,254)	(117,496)
Net cash (used) provided by investing activities	<u>(1,185,480)</u>	<u>148,131</u>
Cash flows from financing activities:		
Repayments of long-term debt	(7,614)	(8,387)
Net cash used by financing activities	<u>(7,614)</u>	<u>(8,387)</u>
Net change in cash	(602,631)	1,700,490
Cash - beginning of year	<u>1,863,373</u>	<u>162,883</u>
Cash - end of year	<u>\$ 1,260,742</u>	<u>\$ 1,863,373</u>
Supplemental information:		
Donated clothes, food and automobiles	<u>\$ 1,353,963</u>	<u>\$ 1,239,761</u>
Capital assets acquired with debt	<u>\$ 72,343</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, 2014 and 2013 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, 2014 or 2013.

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, 2014 and 2013.

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, 2014 is a bequest receivable in the amount of \$57,968 (\$0 – 2013). 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, 2014 and 2013.

Other Receivables: The Mission records other receivables as unrestricted support in the statement of activities and changes in net assets. Other receivables include amounts due from Erie County's emergency shelter grant program, payments due from Goodwill for rags and funds due from the Buffalo Rapid Rehousing Assistance Program. As of September 30, 2014 \$106,414 is included in other receivables (\$115,356 – 2013).

Grant Revenue: Grant revenue is recorded as revenue when expenditures have been incurred in compliance with the grant requirements. As of September 30, 2014 \$125,442 is included in grants receivable (\$27,414 – 2013).

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.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Accounting principles generally accepted in the United States of America provides guidance on the financials statement recognition and measurement for income tax position that the Mission has taken or expects to take in the Mission's income tax returns. Organizations take many tax positions relative to tax laws, including those taken in determining whether tax is due, a refund is owed, a tax return needs to be filed, or the characterization of income as taxable (for example, unrelated business income) or nontaxable. The Mission has not recorded any liabilities relating to uncertain tax positions.

The Mission files its Return or Organization Exempt from Income Tax in the U.S. federal jurisdiction and its Annual Filing of Charitable Organization in New York State. The tax years ended September 30, 2011 - September 30, 2014 generally remain open to examination in taxing jurisdictions in which the Mission is subject to filing requirements of those jurisdictions.

Reclassification: Certain 2013 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 20, 2015, 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. During the year ended September 30, 2014 the Mission transferred all previously held investments from the special purpose reserve into the general investment account and replaced the reserve with operational cash. 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, 2014 are \$970,136 (\$1,118,227 - 2013), 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, 2014, the Mission withdrew \$185,535 (\$265,627 - 2013) of this reserve account to fund the operating losses incurred by Cornerstone (see Note 6). The reserve account earned \$41,420 of interest, dividends and unrealized gains during the year ended September 30, 2014 (\$60,918 - 2013). (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>2014</u>	<u>2013</u>
Certificates of deposit	\$ -	\$ 1,190,883
Common stock	-	62,864
Money market funds	-	17,655
Cash	<u>1,128,222</u>	<u>-</u>
	<u>\$ 1,128,222</u>	<u>\$ 1,271,402</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>2014</u>	<u>2013</u>
Land and buildings:			
Mission Tupper Street	31.5 years	\$ 3,025,026	\$ 3,025,026
Other donated land	-	11,089	11,089
Equipment and furnishings	5 to 7 years	1,728,458	1,689,873
Leasehold improvements	10 to 15 years	39,915	39,915
Vehicles	5 to 7 years	<u>196,916</u>	<u>146,228</u>
		5,001,404	4,912,131
Less: Accumulated depreciation		<u>(3,790,022)</u>	<u>(3,587,915)</u>
		<u>\$ 1,211,382</u>	<u>\$ 1,324,216</u>

Depreciation expense for the year ended September 31, 2014 amounted to \$215,108 (\$213,615 - 2013).

NOTE 4. INVESTMENTS AND SPECIAL PURPOSE RESERVE

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2014 and 2013.

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.

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

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

Investments are comprised of the following as of September 30:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Common stock	\$ 154,941	\$ 171,686	\$ 138,301	\$ 135,318
Interest in trusts	47,004	59,244	48,014	58,165
Certificates of deposit	1,236,969	1,236,969	1,190,883	1,190,883
Money market funds	<u>410,465</u>	<u>410,465</u>	<u>30,614</u>	<u>30,614</u>
Total investments	<u>\$ 1,849,379</u>	<u>\$ 1,878,364</u>	<u>\$ 1,407,812</u>	<u>\$ 1,414,980</u>

The following table sets forth by level, within the fair value hierarchy, the Mission's assets at fair value as of September 30, 2014 and 2013:

	Assets at Fair Value as of September 30, 2014			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock:				
Large Value Equity	\$ 115,994	\$ -	\$ -	\$ 115,994
Large Growth Equity	29,622	-	-	29,622
Mid Value Equity	16,476	-	-	16,476
Large Core Equity	7,874	-	-	7,874
Foreign Large Blend	916	-	-	916
Small Value Equity	804	-	-	804
Interest in trusts	-	59,244	-	59,244
Certificates of deposit	-	1,236,969	-	1,236,969
Money market funds	-	<u>410,465</u>	-	<u>410,465</u>
Total assets at fair value	<u>\$ 171,686</u>	<u>\$ 1,706,678</u>	<u>\$ -</u>	<u>\$ 1,878,364</u>

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. INVESTMENTS AND SPECIAL PURPOSE RESERVE (CONTINUED)

	Assets at Fair Value as of September 30, 2013			Total
	Level 1	Level 2	Level 3	
Common stock:				
Large Value Equity	\$ 86,040	\$ -	\$ -	\$ 86,040
Large Growth Equity	26,053	-	-	26,053
Mid Value Equity	16,007	-	-	16,007
Large Core Equity	6,406	-	-	6,406
Small Value Equity	812	-	-	812
Interest in trusts	-	58,165	-	58,165
Certificates of deposit	-	1,190,883	-	1,190,883
Money market funds	-	30,614	-	30,614
Total assets at fair value	\$ 135,318	\$ 1,279,662	\$ -	\$ 1,414,980

For the year ended September 30, 2013, the above table included common stocks and money market funds held in both the Mission's investment accounts and Special Purpose Reserve. During the year ended September 30, 2014 the Mission transferred all previously held investments from the special purpose reserve into the general investment account and replaced the reserve with operational cash.

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.

NOTE 6. INVESTMENT IN AFFILIATE AND RELATED PARTY PAYABLE

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

During the year ended September 30, 2014 the Mission made \$16,799 of partnership contributions to Cornerstone (\$15,139 - 2013). The Mission records its investment on the equity method. During the year ended September 30, 2014 the Mission recorded a gain on the investment in Cornerstone of \$10,882 (\$9,397 - 2013), resulting in an investment in affiliate as of September 30, 2014 of \$761,461 (\$750,579 - 2013). This investment consists of an investment balance of \$543,623 for Cornerstone Partner, LLC, the General Partner (\$543,642 - 2013) and of an investment in affiliate as of September 30, 2014 of \$217,838 for Manor Partner, Inc., the Special Limited Partner (\$206,937 - 2013).

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. INVESTMENT IN AFFILIATE AND RELATED PARTY PAYABLE (CONTINUED)

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

	<u>2014</u>	<u>2013</u>
Net book value of properties	\$ 7,736,430	\$ 8,085,603
Less recourse debt	<u>1,768,144</u>	<u>1,758,765</u>
	<u>5,968,286</u>	6,326,838
Other liabilities, net	<u>3,698,400</u>	<u>3,698,400</u>
Net equity	<u>\$ 2,269,886</u>	<u>\$ 2,628,438</u>
Revenues	\$ 301,667	\$ 289,600
Costs and other expenses	<u>660,217</u>	<u>667,957</u>
Operating (loss)	<u>\$ (358,550)</u>	<u>\$ (378,357)</u>
Income on investment in subsidiary:		
Operating income	<u>\$ 10,882</u>	<u>\$ 9,397</u>
Total income on investment in subsidiary	<u>\$ 10,882</u>	<u>\$ 9,397</u>

The amount owed to Conerstone totaled \$16,982 as of September 30, 2014 (\$216,815 - 2013). Presentation of the amounts owed are included on the accompanying Statement of Financial Position as a related party payable.

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

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

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

The Mission has analyzed these obligations and determined that the likelihood of payment is not probable as of September 30, 2014. Accordingly, no liability has been recorded.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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% - 2013). There was no outstanding balance as of September 30, 2014 (\$0 - 2013). 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 - 2013). 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 2014 and 2013.

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

Annual maturities of notes payable subsequent to September 30, 2014 are as follows:

2015	\$ 9,443
2016	9,910
2017	10,401
2018	10,915
2019	11,455
Thereafter	<u>534,528</u>
	<u>\$ 586,652</u>

NOTE 9. NET ASSETS

Included in unrestricted net assets at September 30, 2014 is \$970,136 (\$1,118,227 - 2013) of net assets designated by the board to support the operations of the Women's and Children's program at Comerstone (see Note 2).

There were \$35,498 of temporarily restricted net assets as of September 30, 2014 (\$33,734 - 2013). The temporarily restricted net assets represent the Mission's beneficial interest in a charitable remainder trust. There are no restrictions on the use of these funds once they receive the final distribution from the trust, they are time restricted.

Permanently restricted net assets of \$123,746 (\$124,431 - 2013) 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, 2014 or 2013.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. OPERATING LEASES

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

Future approximate minimum lease payments are as follows:

2015	\$	159,000
2016		156,000
2017		150,000
2018		143,000
2019		138,000
Thereafter		<u>137,000</u>
	\$	<u>883,000</u>

Lease expense relating to these agreements amounted to \$227,255 for the fiscal year ended September 30, 2014 (\$219,080 - 2013).

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

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

2015	\$	197,000
2016		201,000
2017		205,000
2018		209,000
2019		213,000
Thereafter		<u>496,000</u>
Total	\$	<u>1,521,000</u>

Rent expense relating to the rent support agreement amounted to \$191,468 for the fiscal year ended September 30, 2014 (\$188,371 - 2013).

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. OPERATING LEASES (CONTINUED)

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

2015	\$	47,061
2016		48,473
2017		49,927
2018		51,425
2019		52,968
Thereafter		<u>96,388</u>
Total	\$	<u>346,242</u>

Rent expense relating to the lease expense and the additional lease expense for their share of the building expenses amounted to \$98,401 for the fiscal year ended September 30, 2014 (\$95,376 - 2013).

NOTE 12. VALUE OF DONATED GOODS

Gifts of food and clothing at September 30, 2014 were valued at \$577,238 (\$486,067 - 2013) and \$774,925 (\$752,594 - 2013), respectively. The value of donated food and clothing recognized was based on the number of meals served at a standard cost of \$2.46 (\$2.46 - 2013) per meal, the number of grocery bags distributed at a standard cost of \$25 (\$25 - 2013) per bag, and the number of bags of clothing distributed to clients at a standard cost of \$120 (\$120 - 2013) per bag. Donated automobiles at September 30, 2014 were valued at \$1,800 (\$1,100 - 2013).

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.

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, 2014 amounted to \$9,932 (\$9,419 - 2013).

The Mission earned a developers fee amounting to \$797,500 during the year ended September 30, 2007 related to the development of Cornerstone. As of September 30, 2014, \$570,419 of this amount has been received. 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.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2014 (\$100,000 - 2013) and the Mission's \$23,746 (\$24,431 - 2013) 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 \$14,587 as of September 30, 2013. 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. During the year ended September 30, 2014 the investments appreciated in value and were no longer below the level that the donor required.

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

	2014			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 1,451	\$ -	\$ 123,746	\$ 125,197
	2013			
Donor restricted endowment funds	\$ (14,587)	\$ -	\$ 124,431	\$ 109,844

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. ENDOWMENT (CONTINUED)

Changes in the Foundation's endowment net assets for the year ended September 30, 2014 and 2013 are as follows:

	<u>2014</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net asset October 1, 2013	\$ (14,587)	\$ -	\$ 124,431	\$ 109,844
Contributions	-	-	-	-
Investment return:				
Investment income and change in beneficial interest	-	-	(685)	(685)
Unrealized gain	<u>16,038</u>	<u>-</u>	<u>-</u>	<u>16,038</u>
Endowment net assets September 30, 2014	<u>\$ 1,451</u>	<u>\$ -</u>	<u>\$ 123,746</u>	<u>\$ 125,197</u>
	<u>2013</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net asset October 1, 2012	\$ (20,662)	\$ -	\$ 123,431	\$ 102,769
Contributions	-	-	-	-
Investment return:				
Investment income and change in beneficial interest	2,332	-	1,000	3,332
Unrealized gain	<u>3,743</u>	<u>-</u>	<u>-</u>	<u>3,743</u>
Endowment net assets September 30, 2013	<u>\$ (14,587)</u>	<u>\$ -</u>	<u>\$ 124,431</u>	<u>\$ 109,844</u>

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2014**

Federal Grantor / Pass-Through Grantor: <u>Program Title</u>	Federal CFDA <u>Number</u>	Federal <u>Expenditures</u>
Direct Federal Awards:		
U.S. Department of Housing and Urban Development:		
Supportive Housing Program	14.235	\$ 390,589
Direct Federal Awards:		
Emergency Food and Shelter Program:		
Emergency Food and Shelter Program	97.024	39,385
Federal Awards Received as a Sub-Recipient, pass-through from City of Buffalo:		
Emergency Shelter Grant	14.231	105,000
Federal Awards Received as a Sub-Recipient, pass-through from City of Buffalo:		
Community Development Block Grant Entitlement Program	14.218	46,909
Federal Awards Received as a Sub-Recipient, pass-through from City of Buffalo:		
Emergency Solutions Grant	14.231	275,336
Federal Awards Received as a Sub-Recipient, pass-through from USDA:		
Child and Adult Care Food Program (CACFP)	10.558	<u>32,512</u>
		<u>\$ 889,731</u>

- (1) Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of City Mission Society, Inc. under programs of the federal government for the year ended September 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of City Mission Society, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of City Mission Society, Inc.
- (2) Summary of Significant Accounting - The Schedule is presented using the accrual basis of accounting which is described in Note 1 to the Organization's general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.



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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the consolidated financial statements of City Mission Society, Inc. and Subsidiaries (the Mission) which comprise the statement of financial position as of September 30, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Freed Maxick CPAs, P.C.

Buffalo, New York
March 20, 2015



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Programs

We have audited City Mission Society, Inc. and Subsidiaries (the Mission) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Mission's major federal programs for the year ended September 30, 2014. The Mission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Mission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Mission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control Over Compliance

Management of the Mission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Mission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each

major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Mission's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 20, 2015

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2014

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of Auditor's Report Issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.235
14.231

Supportive Housing Program
Emergency Shelter Grant

Dollar threshold used to distinguish between type A and type B programs

\$ 300,000

Auditee qualified as low-risk auditee?

Yes No

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2014

(Continued)

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT

There were no findings relating to the financial statement audit.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings or questioned costs relating to the audit of the major federal programs.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

For the Year Ended September 30, 2013

FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT

13-01

Standard of Condition

There are inadequate controls in place to ensure that all transactions are captured and properly recorded in accordance with GAAP.

Criteria

The Mission should have an internal control procedure in place at all times to accomplish the control objective of capturing all transactions and properly recording in the proper period.

Effects

This resulted in the Mission's financial records requiring audit adjustments.

Cause

The significant deficiency was caused by a lack of segregation of duties and a formal review process over financial reporting.

Recommendations

We recommend that the Mission implement and monitor control activities to ensure that all transactions are properly captured and recorded in accordance with GAAP.

Response

The Mission has taken appropriate action including hiring a Chief Financial Officer to ensure accurate financial recordkeeping and reporting in accordance with GAAP.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings or questioned costs relating to the audit of the major federal programs.