

AUDITED
CONSOLIDATED FINANCIAL STATEMENTS

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

SEPTEMBER 30, 2017

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of City Mission Society, Inc. and Subsidiaries (the Company) which comprise the statements of financial position as of September 30, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of City Mission Society, Inc. and Subsidiaries as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Freed Maxick CPAs, P.C.

Buffalo, New York
January 16, 2018

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30,

ASSETS	2017	2016
Current assets:		
Cash and cash equivalents	\$ 1,574,624	\$ 2,780,713
Contributions, bequests and grants receivable	267,099	81,168
Current portion pledges receivable - capital campaign	367,710	36,240
Other receivables	69,243	69,579
Inventory	25,305	25,305
Prepaid expenses and other current assets	18,314	7,307
Total current assets	<u>2,322,295</u>	<u>3,000,312</u>
Investments	1,555,729	1,492,580
Special purpose reserve	735,013	809,302
Land, buildings and equipment, net	1,369,501	1,114,208
Pledges receivable - capital campaign	1,042,989	106,308
Other assets:		
Note receivable	523,600	523,600
Beneficial interest in charitable trusts and other assets	541,555	482,291
Investments in affiliate	666,275	772,734
Total other assets	<u>1,731,430</u>	<u>1,778,625</u>
	<u>\$ 8,756,957</u>	<u>\$ 8,301,335</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 196,909	\$ 177,940
Accrued expenses	150,107	248,873
Current portion of note payable	10,915	10,401
Total current liabilities	<u>357,931</u>	<u>437,214</u>
Related party payable	7,955	39,734
Notes payable	545,041	556,097
Total liabilities	<u>910,927</u>	<u>1,033,045</u>
Net assets:		
Unrestricted	5,437,168	5,260,173
Temporarily restricted	2,286,067	1,885,322
Permanently restricted	122,795	122,795
Total net assets	<u>7,846,030</u>	<u>7,268,290</u>
	<u>\$ 8,756,957</u>	<u>\$ 8,301,335</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, 2017

(with Summarized Information for the Year Ended September 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
Revenue:					
Public support:					
Donations from individuals, businesses and churches	\$ 4,345,713	\$ -	\$ -	\$ 4,345,713	\$ 4,365,442
Bequests and memorials	1,354,034	-	-	1,354,034	1,624,954
Food, clothing and automobile donations	1,102,958	-	-	1,102,958	1,126,679
Grants	450,388	-	-	450,388	507,859
Capital campaign	-	1,327,951	-	1,327,951	79,175
Net assets released from restrictions	927,206	(927,206)	-	-	-
Total public support	8,180,299	400,745	-	8,581,044	7,704,109
Other revenue (expense):					
Thrift store revenue	389,760	-	-	389,760	413,701
Rags salvage revenue	100,112	-	-	100,112	90,213
Interest and dividends	120,581	-	-	120,581	79,609
Miscellaneous revenue	33,147	-	-	33,147	42,180
Management fee revenue	10,260	-	-	10,260	10,058
(Loss) gain on investment in subsidiary	(6,459)	-	-	(6,459)	3,778
Mission motors revenue	4,100	-	-	4,100	-
Realized and unrealized gain on investments	54,428	-	-	54,428	51,840
Total other revenue	705,929	-	-	705,929	691,379
Total revenue	8,886,228	400,745	-	9,286,973	8,395,488
Expenses:					
Program services	5,974,818	-	-	5,974,818	6,447,898
Fundraising	2,142,251	-	-	2,142,251	1,711,715
Management and general	592,164	-	-	592,164	580,586
Total expenses	8,709,233	-	-	8,709,233	8,740,199
Change in net assets	176,995	400,745	-	577,740	(344,711)
Net assets - beginning	5,260,173	1,885,322	122,795	7,268,290	7,613,001
Net assets - ending	\$ 5,437,168	\$ 2,286,067	\$ 122,795	\$ 7,846,030	\$ 7,268,290

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2016</u>
Revenue:				
Public support:				
Donations from individuals, businesses and churches	\$ 4,365,442	\$ -	\$ -	\$ 4,365,442
Bequests and memorials	159,692	1,465,262	-	1,624,954
Food and clothing donations	1,126,679	-	-	1,126,679
Grants	507,859	-	-	507,859
Capital campaign	77,175	2,000	-	79,175
Net assets released from restrictions	73,263	(73,263)	-	-
Total public support	<u>6,310,110</u>	<u>1,393,999</u>	<u>-</u>	<u>7,704,109</u>
Other revenue (expense):				
Thrift store revenue	413,701	-	-	413,701
Rags salvage revenue	90,213	-	-	90,213
Interest and dividends	79,609	-	-	79,609
Miscellaneous revenue	42,180	-	-	42,180
Management fee revenue	10,058	-	-	10,058
Gain on investment in subsidiary	3,778	-	-	3,778
Realized and unrealized (loss) gain on investments	52,862	(1,415)	393	51,840
Total other revenue (expense)	<u>692,401</u>	<u>(1,415)</u>	<u>393</u>	<u>691,379</u>
Total revenue	7,002,511	1,392,584	393	8,395,488
Expenses:				
Program services	6,447,898	-	-	6,447,898
Fundraising	1,711,715	-	-	1,711,715
Management and general	580,586	-	-	580,586
Total expenses	<u>8,740,199</u>	<u>-</u>	<u>-</u>	<u>8,740,199</u>
Change in net assets	(1,737,688)	1,392,584	393	(344,711)
Net assets - beginning	<u>6,997,861</u>	<u>492,738</u>	<u>122,402</u>	<u>7,613,001</u>
Net assets - ending	<u>\$ 5,260,173</u>	<u>\$ 1,885,322</u>	<u>\$ 122,795</u>	<u>\$ 7,268,290</u>

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2017

(with Summarized Information for the Year Ended September 30, 2016)

	Program Services			Supporting Services				Total All Services	
	Program Services	Retail	Total Program	Fund Raising	Capital	Management	Total	2017	2016
					Campaign	And General	Supporting		
Salaries	\$ 2,445,645	\$ 241,012	\$ 2,686,657	\$ -	\$ 230,238	\$ 279,914	\$ 510,152	\$ 3,196,809	\$ 3,430,983
Employee benefits	455,191	55,408	510,599	-	49,212	55,878	105,090	615,689	588,359
Unemployment	6,987	-	6,987	-	-	9,561	9,561	16,548	10,516
Payroll taxes	162,750	18,026	180,776	-	21,922	21,474	43,396	224,172	210,954
Total salaries and benefits	3,070,573	314,446	3,385,019	-	301,372	366,827	668,199	4,053,218	4,240,812
Resident aid and direct assistance	37,572	-	37,572	-	-	-	-	37,572	24,711
Membership dues and expenses	6,973	-	6,973	-	-	5,801	5,801	12,774	9,707
Professional fees	-	-	-	-	-	40,238	40,238	40,238	33,864
Payroll processing fees	-	-	-	-	-	20,934	20,934	20,934	19,707
Bank fees	-	9,150	9,150	17,071	-	69,164	86,235	95,385	77,255
Taxes and licenses	6,457	-	6,457	-	-	-	-	6,457	3,497
Insurance	21,390	22,370	43,760	-	-	-	-	43,760	42,453
Utilities	105,924	35,345	141,269	-	-	-	-	141,269	146,671
Computer expenses	2,214	688	2,902	-	-	-	-	2,902	1,922
Office expenses	17,287	470	17,757	-	3,053	7,798	10,851	28,608	37,231
Repairs and maintenance	34,519	5,080	39,599	-	-	-	-	39,599	39,184
Subscriptions	2,877	-	2,877	-	-	3,089	3,089	5,966	4,658
Travel and entertainment	31,063	1,905	32,968	1,814	11,443	35,675	48,932	81,900	89,793
Printing and advertising	-	3,034	3,034	209,445	-	-	209,445	212,479	165,784
Seminars	22,461	249	22,710	-	-	-	-	22,710	18,464
Vehicles operating expense	10,401	16,871	27,272	-	-	-	-	27,272	29,791
Janitorial expense	37,373	378	37,751	-	-	-	-	37,751	40,910
Fundraising and mailing expense	307	-	307	1,211,817	81,387	1,105	1,294,309	1,294,616	1,070,726
Other consultants	51,003	7,549	58,552	174,902	116,590	18,501	309,993	368,545	437,227
Food purchases	306,580	-	306,580	-	-	-	-	306,580	334,063
Donated food	464,673	-	464,673	-	-	-	-	464,673	469,466
Donated clothing	148,320	488,457	636,777	-	-	-	-	636,777	655,713
Kitchen supplies	39,137	-	39,137	-	-	-	-	39,137	49,408
Laundry and linen supplies	5,186	-	5,186	-	-	-	-	5,186	5,181
Rent/lease	253,402	210,481	463,883	-	13,357	35	13,392	477,275	476,214
Miscellaneous	4,033	-	4,033	-	-	-	-	4,033	8,303
Equipment under \$1,000	9,367	92	9,459	-	-	2,180	2,180	11,639	11,700
Donated automobiles	-	1,500	1,500	-	-	-	-	1,500	1,500
Supplies	9,189	2,216	11,405	-	-	5,088	5,088	16,493	25,298
Total before depreciation	4,698,281	1,120,281	5,818,562	1,615,049	527,202	576,435	2,718,686	8,537,248	8,571,213
Depreciation	152,396	3,860	156,256	-	-	15,729	15,729	171,985	168,986
Total functional expenses	\$ 4,850,677	\$ 1,124,141	\$ 5,974,818	\$ 1,615,049	\$ 527,202	\$ 592,164	\$ 2,734,415	\$ 8,709,233	\$ 8,740,199

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2016

	Program Services			Supporting Services			Total Supporting	Total All Services
	Program Services	Retail	Total Program	Fund Raising	Capital Campaign	Management And General		
Salaries	\$ 2,869,507	\$ 224,153	\$ 3,093,660	\$ -	\$ 58,956	\$ 278,367	\$ 337,323	\$ 3,430,983
Employee benefits	466,198	54,715	520,913	-	11,150	56,296	67,446	588,359
Unemployment	775	-	775	-	-	9,741	9,741	10,516
Payroll taxes	167,191	17,047	184,238	-	4,460	22,256	26,716	210,954
Total salaries and benefits	3,503,671	295,915	3,799,586	-	74,566	366,660	441,226	4,240,812
Resident aid and direct assistance	24,711	-	24,711	-	-	-	-	24,711
Membership dues and expenses	4,407	-	4,407	-	-	5,300	5,300	9,707
Professional fees	-	-	-	-	-	33,864	33,864	33,864
Payroll processing fees	-	-	-	-	-	19,707	19,707	19,707
Bank fees	-	7,511	7,511	23,880	-	45,864	69,744	77,255
Taxes and licenses	3,497	-	3,497	-	-	-	-	3,497
Insurance	24,524	17,929	42,453	-	-	-	-	42,453
Utilities	113,427	33,244	146,671	-	-	-	-	146,671
Computer expenses	1,922	-	1,922	-	-	-	-	1,922
Office expenses	23,216	204	23,420	-	-	13,811	13,811	37,231
Repairs and maintenance	34,933	4,251	39,184	-	-	-	-	39,184
Subscriptions	3,161	-	3,161	-	-	1,497	1,497	4,658
Travel and entertainment	28,421	482	28,903	5,612	1,316	53,962	60,890	89,793
Printing and advertising	-	-	-	165,784	-	-	165,784	165,784
Seminars	18,359	105	18,464	-	-	-	-	18,464
Vehicles operating expense	7,442	22,349	29,791	-	-	-	-	29,791
Janitorial expense	38,663	2,247	40,910	-	-	-	-	40,910
Fundraising and mailing expense	311	-	311	1,066,964	-	3,451	1,070,415	1,070,726
Other consultants	51,144	6,707	57,851	203,862	166,290	9,224	379,376	437,227
Food purchases	334,063	-	334,063	-	-	-	-	334,063
Donated food	469,466	-	469,466	-	-	-	-	469,466
Donated clothing	153,360	502,353	655,713	-	-	-	-	655,713
Kitchen supplies	49,408	-	49,408	-	-	-	-	49,408
Laundry and linen supplies	5,181	-	5,181	-	-	-	-	5,181
Rent/lease	274,734	201,480	476,214	-	-	-	-	476,214
Miscellaneous	1,458	-	1,458	-	3,441	3,404	6,845	8,303
Equipment under \$1,000	10,821	-	10,821	-	-	879	879	11,700
Donated automobiles	-	1,500	1,500	-	-	-	-	1,500
Supplies	16,186	1,878	18,064	-	-	7,234	7,234	25,298
Total before depreciation	5,196,486	1,098,155	6,294,641	1,466,102	245,613	564,857	2,276,572	8,571,213
Depreciation	149,604	3,653	153,257	-	-	15,729	15,729	168,986
Total functional expenses	\$ 5,346,090	\$ 1,101,808	\$ 6,447,898	\$ 1,466,102	\$ 245,613	\$ 580,586	\$ 2,292,301	\$ 8,740,199

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

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

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Changes in net assets	\$ 577,740	\$ (344,711)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	171,985	168,986
Donated investments	-	(3,513)
(Loss) gain on investment in affiliate	6,459	(3,778)
Net realized and unrealized gain on investments	(54,428)	(51,840)
Contributions restricted for capital uses	(59,800)	(1,478,262)
Decrease (increase) in:		
Other receivables	336	(14,740)
Inventory	-	1,350
Prepaid expenses and other current assets	(11,007)	10,839
Contributions, bequests and grants receivable	(185,931)	1,524,374
Pledges receivable - capital campaign, net	(1,268,151)	98,741
Increase (decrease) in:		
Accounts payable and accrued expenses	(79,797)	(12,852)
Related party payable	(31,779)	49,792
Net cash used by operating activities	<u>(934,373)</u>	<u>(55,614)</u>
Cash flows from investing activities:		
Withdrawals from restricted special purpose reserve	74,289	160,835
Return of capital from related party	100,000	-
Sales of investments	3,535	30,947
Purchases of investments	(71,520)	(395,708)
Purchases of fixed assets	(427,278)	(30,845)
Net cash used by investing activities	<u>(320,974)</u>	<u>(234,771)</u>
Cash flows from financing activities:		
Contributions restricted for capital uses	59,800	1,478,262
Repayments of long-term debt	(10,542)	(10,632)
Net cash provided by financing activities	<u>49,258</u>	<u>1,467,630</u>
Net change in cash	(1,206,089)	1,177,245
Cash - beginning of year	<u>2,780,713</u>	<u>1,603,468</u>
Cash - end of year	<u>\$ 1,574,624</u>	<u>\$ 2,780,713</u>
Supplemental information:		
Donated clothes, food and automobiles	<u>\$ 1,102,950</u>	<u>\$ 1,126,679</u>
Cash paid for:		
Interest expense	<u>\$ 2,363</u>	<u>\$ 2,363</u>

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The Mission has a general partner interest in Cornerstone Manor L.P. through its subsidiary Cornerstone Partner, LLC. For the years ended September 30, 2017 and 2016 management has determined that Cornerstone Partner, LLC did not control Cornerstone Manor, L.P. and, therefore Cornerstone Manor, L.P. is not consolidated in these financial statements.

Basis of Accounting: The consolidated financial statements of the Mission have been prepared on the accrual basis. 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, 2017 or 2016.

Inventory: Inventory consists of clothing and household items on hand at the thrift store locations and at the men's shelter and Cornerstone. The amounts included in the accompanying Statements of Financial Position represent an estimate of the value of the donated items on hand at September 30, 2017 and 2016.

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

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Valuation and Income Recognition: All investments are carried at fair value or an approximation of fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. See Note 5 for discussion of fair value measurements.

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

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

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

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

Impairment of Long-Lived Assets: The Mission reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset including its ultimate disposition. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No impairment was recognized during the years ended September 30, 2017 and 2016.

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. The Mission evaluates amounts receivable to determine whether an allowance for doubtful accounts is necessary. An allowance for doubtful accounts has not been deemed necessary for the years ended September 30, 2017 and 2016.

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

The Mission uses the allowance method to determine the uncollectible amounts of pledges receivable. The allowance is based on prior years' experience and management's analysis of the collectability of specific promises made. Management has determined that no allowance was necessary for the years ended September 30, 2017 and 2016.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grant Revenue: Grant revenue is recorded as revenue when expenditures have been incurred in compliance with the grant requirements. As of September 30, 2017, there was \$1,959 in grants receivable (\$43,668 - 2016).

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.

Accounting principles generally accepted in the United States of America provides guidance on the financial 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.

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

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

Subsequent Event: These financial statements have not been updated for subsequent events occurring after January 16, 2018, which is the date these financial statements were available to be issued.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SPECIAL PURPOSE RESERVE

The Mission funded the development costs and future operations of the women's program in a new facility (Cornerstone Manor) (see Note 7). These funds are held in restricted cash and investment accounts until needed. Under the terms of an agreement between the Mission and Cornerstone pursuant to the development and funding of the project, the Mission has established and holds a restricted fund with a minimum required balance outlined in the original agreement. The amounts required to be restricted at September 30, 2017 are \$735,014 (\$809,302 - 2016), 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, 2017, the Mission withdrew \$74,289 (\$160,835 - 2016) of this reserve account to fund the operating losses incurred by Cornerstone (see Note 7).

NOTE 3. PLEDGES RECEIVABLE

Contributions, including pledges receivable to the Mission in the future, are recognized when received. A risk adjusted rate of 3.00% was used for the years ended September 30, 2017 and 2016.

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

	<u>2017</u>	<u>2016</u>
Pledges receivable to be collected in:		
Less than one year	\$ 367,710	\$ 36,240
One to five years	<u>1,157,090</u>	<u>117,860</u>
	1,524,800	154,100
Less present value discount	<u>(114,101)</u>	<u>(11,552)</u>
	<u>\$ 1,410,699</u>	<u>\$ 142,548</u>

NOTE 4. LAND, BUILDINGS, EQUIPMENT AND DEPRECIATION

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

	<u>Estimated Useful Life</u>	<u>2017</u>	<u>2016</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	1,896,693	1,869,339
Leasehold improvements	10 to 15 years	101,123	101,123
Vehicles	5 to 7 years	196,916	196,916
Construction in process	-	<u>444,241</u>	<u>44,237</u>
		5,675,008	5,247,730
Less: Accumulated depreciation		<u>(4,305,507)</u>	<u>(4,133,522)</u>
		<u>\$ 1,369,501</u>	<u>\$ 1,114,208</u>

Depreciation expense for the year ended September 30, 2017 amounted to \$171,985 (\$168,986 - 2016).

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

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. FAIR VALUE MEASUREMENTS

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, 2017 and 2016.

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

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

Certificates of deposit: Certificates of deposit are valued at cost plus interest. Certificates of deposit are classified as Level 2 investments.

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

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

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

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. FAIR VALUE MEASUREMENTS (CONTINUED)

Investments are comprised of the following as of September 30:

	2017		2016	
	Cost	Market	Cost	Market
Common stock	\$ 126,715	\$ 129,542	\$ 126,715	\$ 132,441
Interest in trusts	49,053	58,355	49,053	58,355
Certificates of deposit	1,421,702	1,421,702	1,357,292	1,357,292
Beneficial interest in assets held By Community Foundation of Greater Buffalo	395,707	483,200	395,707	423,936
Money market funds	4,485	4,485	2,847	2,847
Total investments	\$ 1,997,662	\$ 2,097,284	\$ 1,931,614	\$ 1,974,871

The following table sets forth by level, within the fair value hierarchy, the Mission's assets at fair value as of September 30, 2017 and 2016:

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

	Assets at Fair Value as of September 30, 2016			
	Level 1	Level 2	Level 3	Total
Common stock:				
Large Value Equity	\$ 34,349	\$ -	\$ -	\$ 34,349
Large Growth Equity	35,250	-	-	35,250
Small Value Equity	37,289	-	-	37,289
Mid Value Equity	16,260	-	-	16,260
Large Core Equity	8,407	-	-	8,407
Foreign Large Blend	886	-	-	886
Interest in trusts	-	58,355	-	58,355
Certificates of deposit	-	1,357,292	-	1,357,292
Beneficial interest in assets held by Community Foundation for Greater Buffalo	-	-	423,936	423,936
Money market funds	2,847	-	-	2,847
Total assets at fair value	\$ 135,288	\$ 1,415,647	\$ 423,936	\$ 1,974,871

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. FAIR VALUE MEASUREMENTS (CONTINUED)

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

	<u>2017</u>	<u>2016</u>
Balance as of beginning of year	\$ 423,936	\$ -
Purchases	-	395,707
Interest and dividends	5,472	2,805
Fees	(3,535)	(2,164)
Unrealized gains	<u>57,327</u>	<u>27,588</u>
Balance as of end of year	<u>\$ 483,200</u>	<u>\$ 423,936</u>

NOTE 6. NOTES RECEIVABLE - AFFILIATE

The Mission has a note receivable from Cornerstone in the amount of \$523,600. The funds were received by the Mission under a note payable (see Note 10) to Federal Home Loan Bank. The note receivable does not bear interest and any unpaid principal is due in 2020. The note is secured by a mortgage on the property of Cornerstone, which is subordinate to other debt owed by Cornerstone.

NOTE 7. INVESTMENT IN AFFILIATE AND RELATED PARTY PAYABLE

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

During the year ended September 30, 2017 the Mission made no partnership contributions to Cornerstone (\$10,050 - 2016). During the year ended September 30, 2017, the Mission received a return of capital of \$100,000 from Cornerstone (\$0 - 2016). The Mission records its investment on the equity method. During the year ended September 30, 2017 the Mission recorded a loss on the investment in Cornerstone of \$6,459 (gain of \$3,778 - 2016) resulting in an investment in affiliate as of September 30, 2017 of \$666,275 (\$772,734 - 2016). This investment consists of an investment balance of \$543,571 for Cornerstone Partner, LLC, the General Partner (\$543,587 - 2016) and of an investment in affiliate as of September 30, 2017 of \$122,704 for Manor Partner, Inc., the Special Limited Partner (\$229,147 - 2016).

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

	<u>2017</u>	<u>2016</u>
Net book value of properties	\$ 6,548,670	\$ 6,966,720
Less recourse debt	<u>1,609,169</u>	<u>1,560,137</u>
	<u>4,939,501</u>	5,406,583
Other liabilities, net	<u>3,698,400</u>	<u>3,698,400</u>
Net equity	<u>\$ 1,241,101</u>	<u>\$ 1,708,183</u>
Revenues	\$ 307,547	\$ 308,288
Costs and other expenses	<u>674,629</u>	<u>665,764</u>
Operating (loss)	<u>\$ (367,082)</u>	<u>\$ (357,476)</u>

The net amount owed to Cornerstone from the Mission at September 30, 2017 was \$7,955 (\$39,734 - 2016). Presentation of the net amount owed is 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, 2017. Accordingly, no liability has been recorded.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. INVESTMENTS IN WESELYAN INVESTMENT FOUNDATION

The Mission opened two savings accounts with the Wesleyan Investment Foundation (WIF) during the year ended September 30, 2016, and one during the year ended September 30, 2017. The WIF is a non-profit corporation that provides loans and faith based savings opportunities for the sole purpose of assisting churches in financing building projects. The Mission's investments in WIF are guaranteed a 2% rate of interest. Interest accrues daily and is compounded semi-annually. The Mission can withdraw these funds at any time, with the exception of withdrawal requests exceeding \$100,000, which require a 30 day notice. Investments in WIF are not federally insured. The Mission's investments in WIF amounted to \$1,812,623 as of September 30, 2017 (\$2,813,765 - 2016) and are included in cash and cash equivalents and the special purpose reserve.

NOTE 9. DEMAND NOTE PAYABLE

The Mission has a line of credit with a financial institution in the amount of \$200,000, with interest payable annually at the bank's prime rate 4.25% plus 1.5% (5.00% - 2016). There was no outstanding balance as of September 30, 2017 or 2016. The line of credit is collateralized by a general security interest in the assets of the Mission.

NOTE 10. NOTES PAYABLE

The Mission has a note payable to the Federal Home Loan Bank of New York in the amount of \$523,600 (\$523,600 - 2016). The note does not bear interest and is due in full in September 2021. The note is secured by an assigned mortgage from the note receivable that evidences the loan of the proceeds to an affiliate (see Note 7). Any amounts received from the affiliate under the related note receivable described in Note 6 are due to the Federal Home Loan Bank. No amounts have been received during 2017 and 2016.

During the year ended September 30, 2015, 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 30, 2017 there was \$32,356 outstanding on this note (\$42,898 - 2016). The note is collateralized by the vehicle.

Annual maturities of notes payable subsequent to September 30, 2017 are as follows:

2018	\$	10,915
2019		11,455
2020		9,986
2021		<u>523,600</u>
	\$	<u>555,956</u>

NOTE 11. NET ASSETS

Included in unrestricted net assets at September 30, 2017 is \$650,024 (\$735,014 - 2016) of net assets designated by the board to support the operations of the Women's and Children's program at Cornerstone (see Note 2).

There were \$2,286,067 of temporarily restricted net assets as of September 30, 2017 (\$1,885,322 - 2016). The temporarily restricted net assets represent the Mission's beneficial interest in a charitable remainder trust as well as pledges and contributions for the capital campaign. There are no restrictions on the use of the charitable remainder trust funds once received from the trust, the amount is currently time restricted. The funds relating to the capital campaign are purpose restricted and may only be released from restriction for use toward the men's facility expansion project.

As of September 30, 2017, permanently restricted net assets of \$122,795 (\$122,795 - 2015) represented an endowment for which the principal amount of gifts and bequests are required to be maintained intact in perpetuity and the Mission's beneficial interest in a perpetual trust (See Note 17).

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. PENSION PLAN

The Mission has established a defined contribution pension plan which covers all full-time employees meeting age and eligibility requirements. Employer contributions to the plan are determined annually at the discretion of the Board of Directors and vest over a six year period. There was no contribution for the years ended September 30, 2017 or 2016.

NOTE 13. OPERATING LEASES

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

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

Future approximate minimum lease payments are as follows:

2018	\$ 178,000
2019	147,000
2020	<u>142,000</u>
	<u>\$ 467,000</u>

Lease expense relating to these agreements amounted to \$254,494 for the fiscal year ended September 30, 2017 (\$256,622 - 2016).

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:

2018	\$ 209,000
2019	213,000
2020	217,000
2021	<u>278,000</u>
Total	<u>\$ 917,000</u>

The amounts owed per the agreement are reduced by payments that Cornerstone collects from tenants or Erie County. Rent expense relating to the rent support agreement amounted to \$101,290 for the fiscal year ended September 30, 2017 (\$108,462 - 2016).

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. OPERATING LEASES (CONTINUED)

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

2018	\$	51,425
2019		52,968
2020		54,557
2021		<u>41,831</u>
Total	\$	<u>250,708</u>

Rent expense relating to the lease expense and the additional lease expense for their share of the building expenses amounted to \$106,880 for the fiscal year ended September 30, 2017 (\$108,444 - 2016).

NOTE 14. VALUE OF DONATED GOODS

Gifts of food and clothing at September 30, 2017 were valued at \$464,673 (\$469,466 - 2016) and \$636,777 (\$655,713 - 2016), 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 - 2016) per meal, the number of grocery bags distributed at a standard cost of \$25 (\$25 - 2016) per bag, and the number of bags of clothing distributed to clients at a standard cost of \$120 (\$120 - 2016) per bag. Donated automobiles at September 30, 2017 were valued at \$1,500 (\$1,500 - 2016).

NOTE 15. FUNCTIONAL ALLOCATION OF EXPENSES

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

NOTE 16. RELATED PARTY TRANSACTIONS

The Mission receives a management fee from Cornerstone for the management and bookkeeping services performed. The management fee received from Cornerstone during the year ended September 30, 2017 amounted to \$10,260 (\$10,058 - 2016).

NOTE 17. COMMITMENTS AND CONTINGENCIES

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

NOTE 18. ENDOWMENT

The Mission's endowment consists of one individual fund which is permanently restricted in the amount of \$100,000 at September 30, 2017 (\$100,000 - 2016) and the Mission's \$22,795 (\$22,795 - 2016) 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.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18. ENDOWMENT (CONTINUED)

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

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

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or NYPMIFA requires the Mission to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies as of September 30, 2017 and 2016. Deficiencies would result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions and continued appropriation for certain programs that are deemed prudent by the Mission.

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

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted endowment funds	\$ 22,111	\$ -	\$ 122,795	\$ 146,246
	2016			
Donor restricted endowment funds	\$ 7,134	\$ -	\$ 122,795	\$ 129,929

Changes in the Mission's endowment net assets for the year ended September 30, 2017 and 2016 are as follows:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net asset October 1, 2016	\$ 7,134	\$ -	\$ 122,795	\$ 129,929
Investment return: Investment income	<u>14,977</u>	<u>-</u>	<u>-</u>	<u>16,317</u>
Endowment net assets September 30, 2017	<u>\$ 22,111</u>	<u>\$ -</u>	<u>\$ 122,795</u>	<u>\$ 146,246</u>

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18. ENDOWMENT (CONTINUED)

	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net asset October 1, 2015	\$ -	\$ -	\$ 122,402	\$ 122,402
Investment return:				
Investment income and change in beneficial interest	<u>7,134</u>	<u>-</u>	<u>393</u>	<u>7,527</u>
Endowment net assets September 30, 2016	<u>\$ 7,134</u>	<u>\$ -</u>	<u>\$ 122,795</u>	<u>\$ 129,929</u>