

**AUDITED
CONSOLIDATED FINANCIAL STATEMENTS**

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

SEPTEMBER 30, 2019

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 consolidated financial statements

We have audited the accompanying consolidated financial statements of City Mission Society, Inc. and Subsidiaries (the Mission) which comprise the statements of financial position as of September 30, 2019 and 2018, 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 consolidated 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, 2019 and 2018, 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 2, 2020

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30,

ASSETS	2019	2018
Current assets:		
Cash and cash equivalents	\$ 3,752,271	\$ 3,170,550
Contributions, bequests and grants receivable	1,080,277	3,318,838
Current portion pledges receivable - capital campaign	998,041	614,366
Other receivables	99,189	51,215
Inventory	25,305	25,305
Prepaid expenses and other current assets	59,649	21,395
Total current assets	<u>6,014,732</u>	<u>7,201,669</u>
Investments	1,252,172	1,312,430
Special purpose reserve	553,677	654,353
Land, buildings and equipment, net	9,796,765	1,446,976
Pledges receivable - capital campaign	716,085	1,081,368
Other assets:		
Note receivable	523,600	523,600
Beneficial interest in charitable trusts and other assets	581,372	586,208
Investments in affiliate	458,214	591,504
Total other assets	<u>1,563,186</u>	<u>1,701,312</u>
	<u>\$ 19,896,617</u>	<u>\$ 13,398,108</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,729,844	\$ 341,831
Accrued expenses	134,357	138,424
Total current liabilities	<u>1,864,201</u>	<u>480,255</u>
Related party payable	23,772	158
Notes payable	4,042,754	523,600
Total liabilities	<u>5,930,727</u>	<u>1,004,013</u>
Net assets:		
Without donor restrictions	5,750,586	5,986,676
With donor restrictions	8,215,304	6,407,419
Total net assets	<u>13,965,890</u>	<u>12,394,095</u>
	<u>\$ 19,896,617</u>	<u>\$ 13,398,108</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, 2019

(with Summarized Information for the Year Ended September 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Total 2018
Revenue:				
Public support:				
Donations from individuals, businesses and churches	\$ 4,827,322	\$ -	\$ 4,827,322	\$ 4,595,414
Capital campaign	-	2,544,152	2,544,152	4,326,758
Bequests and memorials	1,335,084	-	1,335,084	2,636,939
Food, clothing and automobile donations	1,387,038	-	1,387,038	1,272,759
Grants	384,301	-	384,301	401,681
Net assets released from restrictions	736,696	(736,696)	-	-
Total public support	8,670,441	1,807,456	10,477,897	13,233,551
Other revenue (expense):				
Thrift store revenue	431,754	-	431,754	412,764
Rags salvage revenue	133,149	-	133,149	111,071
Investment income, net	49,730	429	50,159	139,657
Interest and dividends	51,617	-	51,617	35,432
Miscellaneous revenue	50,454	-	50,454	38,902
Management fee revenue	10,465	-	10,465	10,465
Loss on investment in subsidiary	(133,290)	-	(133,290)	(6,583)
Mission motors revenue	550	-	550	2,050
Total other revenue	594,429	429	594,858	743,758
Total revenue	9,264,870	1,807,885	11,072,755	13,977,309
Expenses:				
Program services	6,462,276	-	6,462,276	6,445,792
Fundraising and capital campaign	2,289,334	-	2,289,334	2,383,859
Management and general	749,350	-	749,350	599,593
Total expenses	9,500,960	-	9,500,960	9,429,244
Change in net assets	(236,090)	1,807,885	1,571,795	4,548,065
Net assets - beginning	5,986,676	6,407,419	12,394,095	7,846,030
Net assets - ending	\$ 5,750,586	\$ 8,215,304	\$ 13,965,890	\$ 12,394,095

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended September 30, 2018

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total 2018</u>
Revenue:			
Public support:			
Donations from individuals, businesses and churches	\$ 4,585,755	\$ 9,659	\$ 4,595,414
Capital campaign	-	4,326,758	4,326,758
Bequests and memorials	2,636,939	-	2,636,939
Food, clothing and automobile donations	1,272,759	-	1,272,759
Grants	401,681	-	401,681
Net assets released from restrictions	814,045	(814,045)	-
Total public support	<u>9,711,179</u>	<u>3,522,372</u>	<u>13,233,551</u>
Other revenue (expense):			
Thrift store revenue	412,764	-	412,764
Investment income, net	129,824	9,833	139,657
Rags salvage revenue	111,071	-	111,071
Miscellaneous revenue	38,902	-	38,902
Interest and dividends	35,432	-	35,432
Management fee revenue	10,465	-	10,465
Mission motors revenue	2,050	-	2,050
Loss on investment in subsidiary	(6,583)	-	(6,583)
Total other revenue	<u>733,925</u>	<u>9,833</u>	<u>743,758</u>
Total revenue	10,445,104	3,532,205	13,977,309
Expenses:			
Program services	6,445,792	-	6,445,792
Fundraising and capital campaign	2,383,859	-	2,383,859
Management and general	599,593	-	599,593
Total expenses	<u>9,429,244</u>	<u>-</u>	<u>9,429,244</u>
Change in net assets	1,015,860	3,532,205	4,548,065
Net assets - beginning	<u>4,970,816</u>	<u>2,875,214</u>	<u>7,846,030</u>
Net assets - ending	<u>\$ 5,986,676</u>	<u>\$ 6,407,419</u>	<u>\$ 12,394,095</u>

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2019

(with Summarized Information for the Year Ended September 30, 2018)

	Program Services			Supporting Services			Total Supporting	Total All Services	
	Program Services	Retail	Total Program	Fundraising	Capital Campaign	Management And General		2019	2018
Salaries	\$ 2,551,123	\$ 267,503	\$ 2,818,626	\$ -	\$ 342,129	\$ 398,227	\$ 740,356	\$ 3,558,982	\$ 3,450,280
Employee benefits	530,006	57,769	587,775	-	68,787	71,894	140,681	728,456	706,351
Payroll taxes	177,772	20,024	197,796	-	26,324	30,564	56,888	254,684	240,224
Unemployment	9,621	-	9,621	-	-	9,907	9,907	19,528	6,528
Total salaries and benefits	3,268,522	345,296	3,613,818	-	437,240	510,592	947,832	4,561,650	4,403,383
Fundraising and mailing expense	-	-	-	1,328,519	181,051	1,574	1,511,144	1,511,144	1,352,770
Donated clothing	476,745	562,332	1,039,077	-	-	-	-	1,039,077	837,515
Rent/lease	316,145	229,628	545,773	-	33,498	-	33,498	579,271	507,943
Donated food	347,961	-	347,961	-	-	-	-	347,961	433,194
Food purchases	264,546	-	264,546	-	-	-	-	264,546	292,713
Other consultants	13,146	35	13,181	98,312	46,745	74,725	219,782	232,963	494,259
Utilities	116,546	36,211	152,757	-	-	-	-	152,757	149,681
Printing and advertising	-	-	-	100,063	-	-	100,063	100,063	146,226
Bank fees	-	8,796	8,796	24,612	-	35,388	60,000	68,796	84,451
Office expenses	17,986	518	18,504	-	21,431	24,068	45,499	64,003	40,316
Travel and entertainment	27,401	736	28,137	1,132	2,602	26,026	29,760	57,897	105,077
Professional fees	-	-	-	-	14,129	31,872	46,001	46,001	40,270
Resident aid and direct assistance	43,071	-	43,071	-	-	-	-	43,071	35,976
Insurance	35,735	4,883	40,618	-	-	-	-	40,618	47,786
Vehicles operating expense	18,457	18,641	37,098	-	-	-	-	37,098	31,174
Janitorial expense	34,309	-	34,309	-	-	-	-	34,309	38,888
Payroll processing fees	-	-	-	-	-	23,855	23,855	23,855	22,055
Supplies	11,101	2,546	13,647	-	-	9,641	9,641	23,288	25,429
Kitchen supplies	22,566	-	22,566	-	-	-	-	22,566	32,264
Seminars	21,047	-	21,047	-	-	-	-	21,047	26,673
Membership dues and expenses	19,393	-	19,393	-	-	346	346	19,739	6,867
Repairs and maintenance	14,070	3,596	17,666	-	-	-	-	17,666	22,886
Subscriptions	5,761	-	5,761	-	-	308	308	6,069	6,369
Taxes and licenses	5,520	-	5,520	-	-	-	-	5,520	3,316
Laundry and linen supplies	2,809	-	2,809	-	-	-	-	2,809	4,505
Miscellaneous	-	-	-	-	-	2,461	2,461	2,461	-
Equipment under \$1,000	2,096	-	2,096	-	-	-	-	2,096	15,000
Computer expenses	-	1,638	1,638	-	-	-	-	1,638	13,671
Bad debt	-	-	-	-	-	-	-	-	37,480
Donated automobiles	-	-	-	-	-	-	-	-	2,050
Total before depreciation	5,084,933	1,214,856	6,299,789	1,552,638	736,696	740,856	3,030,190	9,329,979	9,260,187
Depreciation	158,626	3,861	162,487	-	-	8,494	8,494	170,981	169,057
Total functional expenses	\$ 5,243,559	\$ 1,218,717	\$ 6,462,276	\$ 1,552,638	\$ 736,696	\$ 749,350	\$ 3,038,684	\$ 9,500,960	\$ 9,429,244

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2018

	Program Services			Supporting Services				Total All Services
	Program Services	Retail	Total Program	Fundraising	Capital Campaign	Management And General	Total Supporting	
Salaries	\$ 2,635,872	\$ 256,066	\$ 2,891,938	\$ -	\$ 259,702	\$ 298,640	\$ 558,342	\$ 3,450,280
Employee benefits	531,775	50,549	582,324	-	43,142	80,885	124,027	706,351
Payroll taxes	179,204	19,079	198,283	-	19,569	22,372	41,941	240,224
Unemployment	6,504	-	6,504	-	-	24	24	6,528
Total salaries and benefits	3,353,355	325,694	3,679,049	-	322,413	401,921	724,334	4,403,383
Fundraising and mailing expense	144	-	144	1,208,070	141,981	2,575	1,352,626	1,352,770
Donated clothing	313,680	523,835	837,515	-	-	-	-	837,515
Rent/lease	290,502	204,249	494,751	-	13,192	-	13,192	507,943
Other consultants	37,201	581	37,782	188,903	260,635	6,939	456,477	494,259
Donated food	433,194	-	433,194	-	-	-	-	433,194
Food purchases	292,713	-	292,713	-	-	-	-	292,713
Utilities	110,529	39,152	149,681	-	-	-	-	149,681
Printing and advertising	-	-	-	146,226	-	-	146,226	146,226
Travel and entertainment	39,488	764	40,252	2,020	21,571	41,234	64,825	105,077
Bank fees	-	7,528	7,528	24,595	-	52,328	76,923	84,451
Insurance	28,286	17,634	45,920	-	-	1,866	1,866	47,786
Office expenses	19,038	575	19,613	-	11,636	9,067	20,703	40,316
Professional fees	-	-	-	-	-	40,270	40,270	40,270
Janitorial expense	38,828	60	38,888	-	-	-	-	38,888
Bad debt	-	-	-	-	37,480	-	37,480	37,480
Resident aid and direct assistance	35,976	-	35,976	-	-	-	-	35,976
Kitchen supplies	32,264	-	32,264	-	-	-	-	32,264
Vehicles operating expense	6,614	24,560	31,174	-	-	-	-	31,174
Seminars	26,673	-	26,673	-	-	-	-	26,673
Supplies	12,675	3,785	16,460	-	5,137	3,832	8,969	25,429
Repairs and maintenance	22,402	484	22,886	-	-	-	-	22,886
Payroll processing fees	-	-	-	-	-	22,055	22,055	22,055
Equipment under \$1,000	13,557	710	14,267	-	-	733	733	15,000
Computer expenses	8,601	5,070	13,671	-	-	-	-	13,671
Membership dues and expenses	3,240	-	3,240	-	-	3,627	3,627	6,867
Subscriptions	2,321	-	2,321	-	-	4,048	4,048	6,369
Laundry and linen supplies	4,505	-	4,505	-	-	-	-	4,505
Taxes and licenses	3,316	-	3,316	-	-	-	-	3,316
Donated automobiles	-	2,050	2,050	-	-	-	-	2,050
Total before depreciation	5,129,102	1,156,731	6,285,833	1,569,814	814,045	590,495	2,974,354	9,260,187
Depreciation	156,099	3,860	159,959	-	-	9,098	9,098	169,057
Total functional expenses	\$ 5,285,201	\$ 1,160,591	\$ 6,445,792	\$ 1,569,814	\$ 814,045	\$ 599,593	\$ 2,983,452	\$ 9,429,244

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended September 30,

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Changes in net assets	\$ 1,571,795	\$ 4,548,065
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	170,981	169,057
Donated investments	(5,221)	(23,019)
Gain on beneficial interest in charitable trusts	(2,211)	(1,324)
Donation of interest in perpetual trust	-	(9,659)
Loss on investment in affiliate	143,407	6,583
Net realized and unrealized loss (gain) on investments	31,223	(67,562)
Loss on disposal of furniture and equipment	-	31,152
Contributions restricted for capital uses	(937,793)	(466,260)
Decrease (increase) in:		
Other receivables	(47,974)	18,028
Prepaid expenses and other current assets	(38,254)	(3,081)
Contributions, bequests and grants receivable	(1,025,031)	(3,051,739)
Pledges receivable - capital campaign, net	(18,392)	(285,035)
Increase (decrease) in:		
Accounts payable and accrued expenses	84,893	133,239
Related party payable	23,614	(7,797)
Net cash (used) provided by operating activities	<u>(48,963)</u>	<u>990,648</u>
Cash flows from investing activities:		
Withdrawals from restricted special purpose reserve, net	124,688	80,660
Proceeds from sale of investments	103,215	376,412
Purchases of investments	(85,924)	(76,202)
Proceeds from disposal of furniture and equipment	-	1,000
Capital contributions to related party	(10,117)	-
Return of capital from related party	-	68,188
Capital purchases	(3,702,563)	(305,547)
Net cash (used) provided by investing activities	<u>(3,570,701)</u>	<u>144,511</u>
Cash flows from financing activities:		
Contributions and grants restricted for capital purposes	4,201,385	466,260
Repayments of long-term debt	-	(5,493)
Net cash provided by financing activities	<u>4,201,385</u>	<u>460,767</u>
Net change in cash and cash equivalents	581,721	1,595,926
Cash and cash equivalents - beginning of year	<u>3,170,550</u>	<u>1,574,624</u>
Cash and cash equivalents - end of year	<u>\$ 3,752,271</u>	<u>\$ 3,170,550</u>
Supplemental information:		
Donated clothes, food and automobiles	<u>\$ 1,387,038</u>	<u>\$ 1,282,102</u>
Capital assets included in accounts payable	<u>\$ 1,299,053</u>	<u>\$ -</u>
Capital assets acquired with debt	<u>\$ 3,519,154</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ 263</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.

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

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the City Mission Society, Inc. and its wholly-owned subsidiaries, Manor Partner, Inc. and Cornerstone Partner, LLC. These entities are the special limited partner and general partner, respectively, of Cornerstone Manor, L.P. (Cornerstone) an affiliated entity and each own .005% of the affiliated entity (see Note 8). 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, 2019 and 2018, management has determined that Cornerstone Partner, LLC did not control Cornerstone Manor, L.P. and, therefore Cornerstone Manor, L.P. is not consolidated in these financial statements.

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

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

Other Receivables: The Mission carries its other accounts receivable at amount invoiced less an allowance for doubtful accounts. On a periodic basis, the Mission evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Management has determined that no reserve for doubtful accounts is necessary as of September 30, 2019 or 2018.

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 consolidated statements of financial position represent an estimate of the fair value of the donated items on hand at September 30, 2019 and 2018.

Net Assets: The consolidated financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net Assets Without Donor Restrictions: Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the Mission, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets With Donor Restrictions: Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Mission must continue to use the resources in accordance with the donor's instructions.

The Mission's unspent contributions are included in this class if the donor limited their use, as are its donor-restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the consolidated financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Mission, unless the donor provides more specific directions about the period of its use.

Classification of Transactions: All revenues and net gains are reported as increases in net assets without donor restrictions in the consolidated statements of activities and changes in net assets unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

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 6 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.

Endowment: Endowment investments consist of investments purchased with donor-restricted perpetual endowments, which are contributions restricted by donors to investment in perpetuity with only investment income and appreciation being used to support the Mission's activities. Endowment investments also include investments purchased with unspent investment income and net gains on these resources. Endowment investments are reported at fair value with changes to fair value reported as investment return in the consolidated statements of activities and changes in net assets. Purchases and sales of investments are reported on the trade date. The investment and spending policies for the Endowment Fund are discussed in Note 17.

Beneficial Interest in Trusts: The Mission is the irrevocable beneficiary of two perpetual charitable trusts and one charitable remainder trust held by bank trustees. The beneficial interest in the trusts are reported at their fair value, which is estimated as the fair value of the underlying trust assets. Distributions of income from the perpetual trusts are without donor restriction. The value of the beneficial interest in the trusts is adjusted annually for the change in its estimated fair value. Those changes in value are reported as increases in net assets with donor restrictions. The perpetual trusts' assets will never be distributed to the Mission. The charitable remainder trust assets will be without donor restriction once the trust assets are fully distributed.

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.

Expense Recognition and Allocation: The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, which are allocated on the basis of estimates of time and effort. Every year the basis on which costs are allocated are evaluated.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Mission.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Mission generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and management and general expenses in accordance with standards for accounting for costs of activities that include fundraising.

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 support without donor restriction 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 with donor restriction. 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 with donor restricted net assets to without donor restricted 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, 2019 and 2018.

Contributions: Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restriction unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets without donor restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported in net assets with donor restriction until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Contributions Receivable and Bequests Receivable: The Mission records contributions and bequests with payments due in future periods as receivables. The Mission evaluates amounts receivable to determine whether an allowance for doubtful accounts is necessary. An allowance for doubtful accounts has not been deemed necessary for the years ended September 30, 2019 and 2018.

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

Grant Revenues and Receivable: Grant revenue is recorded as revenue when expenditures have been incurred in compliance with the grant requirements. As of September 30, 2019, there was \$1,884 in grants receivable (\$3,593 - 2018).

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.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2019 and 2018.

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 consolidated statements of financial position.

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

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

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

Change in Accounting Principles: The Mission implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the consolidated financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The consolidated financial statements include a disclosure about liquidity and availability of resources (see Note 3).
- At September 30, 2018 the classification has changed from unrestricted net assets to net asset with donor restrictions for the \$708,634 of net assets previously released from restriction for capital purchases.
- At September 30, 2018 the classification has changed from unrestricted net assets to net asset with donor restrictions for the \$30,620 of investment earnings on the endowment.

The changes have the following effect on net assets at September 30, 2018:

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted net assets	\$ 6,725,930	\$ -
Temporarily restricted net assets	5,534,387	-
Permanently restricted net assets	133,778	-
Net assets without donor restrictions	-	5,986,676
Net assets with donor restrictions	-	6,407,419
Total net assets	<u>\$ 12,394,095</u>	<u>\$ 12,394,095</u>

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements: 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 consolidated statements of financial position 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 consolidated statements of activities and changes in net assets. The new standard is effective for fiscal years beginning after December 15, 2020. 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 consolidated 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.

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

Subsequent Events: These consolidated financial statements have not been updated for subsequent events occurring after January 2, 2020, which is the date these consolidated 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 separate facility (Cornerstone Manor) (see Note 8). 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, 2019 are \$553,677 (\$654,353 - 2018), 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, 2019, the Mission withdrew \$124,688 (\$80,660 - 2018) of this reserve account to fund the operating losses incurred by Cornerstone (see Note 8).

NOTE 3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure that is, without donor or other restrictions limiting their use, within one year of September 30, 2019 are:

Current financial assets without donor restriction:

Cash and cash equivalents	\$ 3,752,271
Contributions, bequests and grants receivable	1,080,277
Other receivables	99,189
Total current financial assets	4,931,737
Less: Cash restricted for capital purposes	(2,656,306)
Amount available for general expenditures within one year	\$ 2,275,431

The Mission has one endowment fund for which the income is not restricted for a specific purpose and, therefore, is available for general expenditure once appropriated by the Board of Directors. In the case of need, the Board of Directors could also appropriate resources from long term investments available for general use (\$1,252,172 at September 30, 2019). To help manage unanticipated liquidity needs, the Mission has a committed line of credit in the amount of \$200,000 which it could draw upon (see Note 10).

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. PLEDGES RECEIVABLE

Contributions, including pledges receivable to the Mission in the future, are recognized when received. A risk adjusted rate of 5.00% was used for the years ended September 30, 2019 (5.00% - 2018).

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

	<u>2019</u>	<u>2018</u>
Pledges receivable to be collected in:		
Less than one year	\$ 998,041	\$ 614,366
One to five years	<u>842,776</u>	<u>1,216,374</u>
	1,840,817	1,830,740
Less present value discount	<u>(126,691)</u>	<u>(135,006)</u>
	<u>\$ 1,714,126</u>	<u>\$ 1,695,734</u>

NOTE 5. LAND, BUILDINGS, EQUIPMENT AND DEPRECIATION

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

	<u>Estimated Useful Life</u>	<u>2019</u>	<u>2018</u>
Land and buildings:			
Mission Tupper Street	31.5 years	\$ 3,027,881	\$ 3,025,026
Other donated land	-	303	303
Equipment and furnishings	5 to 7 years	2,026,169	1,937,767
Leasehold improvements	10 to 15 years	101,123	101,123
Vehicle	5 to 7 years	99,258	99,258
Construction in process	-	<u>9,138,147</u>	<u>708,634</u>
		14,392,881	5,872,111
Less: Accumulated depreciation		<u>(4,596,116)</u>	<u>(4,425,135)</u>
		<u>\$ 9,796,765</u>	<u>\$ 1,446,976</u>

Depreciation expense for the year ended September 30, 2019 amounted to \$170,981 (\$169,057 - 2018).

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

NOTE 6. INVESTMENTS AND 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: Quoted prices for identical assets or liabilities in active markets to which the Mission has the ability to access at the measurement date.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in markets that are not active;

- Observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
- Inputs derived principally from, or corroborated by, observable market data by correlation or other means.

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

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2019 and 2018.

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 methods are appropriate and consistent with other market participants, the use of different methodologies or 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 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 6. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Mission's assets at fair value as of September 30, 2019 and 2018:

	Assets at Fair Value as of September 30, 2019			
	Level 1	Level 2	Level 3	Total
Common stock:				
Large Value Equity	\$ 42,333	\$ -	\$ -	\$ 42,333
Large Growth Equity	26,905	-	-	26,905
Small Value Equity	32,151	-	-	32,151
Mid Value Equity	19,527	-	-	19,527
Large Core Equity	28,646	-	-	28,646
Financial	2,800	-	-	2,800
Foreign Large Blend	956	-	-	956
Interest in trusts	-	71,549	-	71,549
Certificates of deposit	-	1,071,284	-	1,071,284
Beneficial interest in assets held by Community Foundation for Greater Buffalo	-	-	509,823	509,823
Money market funds	27,570	-	-	27,570
Total assets at fair value	\$ 180,888	\$ 1,142,833	\$ 509,823	\$ 1,833,544

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

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. INVESTMENTS AND 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>2019</u>	<u>2018</u>
Balance as of beginning of year	\$ 516,870	\$ 483,200
Interest and dividends	5,201	6,418
Fees	(4,367)	(3,957)
Unrealized (losses) gains	<u>(7,881)</u>	<u>31,209</u>
Balance as of end of year	<u>\$ 509,823</u>	<u>\$ 516,870</u>

NOTE 7. 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 11) to Federal Home Loan Bank (FHLB). 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. The note is presented as long term since management does not anticipate payment within the coming twelve months.

NOTE 8. 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, 2019, the Mission made \$10,117 in partnership contributions (\$0 – 2018) and received no partner distributions (\$68,118 - 2018) from Cornerstone. The Mission records its investment in Cornerstone on the equity method. During the year ended September 30, 2019 the Mission recorded a loss on the investment in Cornerstone of \$133,290 (\$6,583 - 2018) resulting in an investment in affiliate as of September 30, 2019 of \$458,214 (\$591,504 - 2018). This investment consists of an investment balance of \$238,862 for Cornerstone Partner, LLC, the General Partner (\$375,435 - 2018) and of an investment in affiliate as of September 30, 2019 of \$219,352 for Manor Partner, Inc., the Special Limited Partner (\$216,069 - 2018).

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. INVESTMENT IN AFFILIATE AND RELATED PARTY PAYABLE (CONTINUED)

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

	<u>2019</u>	<u>2018</u>
Net book value of properties	\$ 5,764,679	\$ 6,110,706
Less other liabilities, net	<u>1,608,065</u>	<u>1,577,361</u>
	<u>4,156,614</u>	4,533,345
Qualified nonrecourse debt	<u>3,698,400</u>	<u>3,698,400</u>
Net equity	<u>\$ 458,214</u>	<u>\$ 834,945</u>
Revenues	\$ 354,149	\$ 349,696
Costs and other expenses	<u>740,997</u>	<u>687,734</u>
Operating loss	<u>\$ (386,848)</u>	<u>\$ (338,038)</u>

The net amount owed to Cornerstone from the Mission at September 30, 2019 was \$23,772 (\$158 - 2018). Presentation of the net amount owed is included on the accompanying consolidated statements of financial position as a related party payable.

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

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

- 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, 2019. Accordingly, no liability has been recorded.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. INVESTMENTS IN WESELYAN INVESTMENT FOUNDATION

The Mission has several savings accounts with the Wesleyan Investment Foundation (WIF) at September 30, 2019. 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 \$76,864 as of September 30, 2019 (\$1,136,624 - 2018) and are included in cash and cash equivalents and the special purpose reserve.

NOTE 10. DEMAND NOTE PAYABLE

The Mission has a line of credit with a financial institution in the amount of \$200,000, with interest payable monthly at the bank's prime rate plus 1.5% (6.5% at September 30, 2019). There was no outstanding balance as of September 30, 2019 (\$0 - 2019). The line of credit is collateralized by a general security interest in the assets of the Mission.

NOTE 11. NOTES PAYABLE

The Mission has a note payable to the Federal Home Loan Bank of New York in the amount of \$523,600 at September 30, 2019 (\$523,600 - 2019). 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 8). Any amounts received from the affiliate under the related note receivable described in Note 7 are due to the Federal Home Loan Bank. No amounts have been received during 2019 and 2018.

On December 19, 2018, the Mission entered into a construction loan for \$5,250,000 and a construction bridge loan for \$5,000,000 with Evans Bank, N.A.

The construction loan has a fixed interest rate of 5.72% and requires monthly interest only payments through the conversion date. The construction loan will convert to a permanent note once construction is complete no later than December 1, 2020. At September 30, 2019 the construction loan had an outstanding balance of \$3,519,154 (\$0 - 2018). Monthly payments of principal and interest will commence on the conversion date over a 30 year amortization period with a final payment of all outstanding principal and accrued interest due on December 1, 2028. The loan is secured by the building.

The construction bridge loan has a variable interest rate equal to the prime rate and requires monthly interest only payments through the conversion date. The construction bridge loan will convert to a permanent note once construction is complete no later than December 1, 2020. There have been no draws on the bridge loan as of September 30, 2019. Monthly payments of principal and interest will commence on the conversion date through December 1, 2023. The loan is secured by the building.

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, 2019 or 2018.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. OPERATING LEASES

Equipment and Property: The Mission has an operating lease for a thrift store located in the Dick Urban Plaza in Cheektowaga. 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 2018, the Mission signed an operating lease extension for office space located on Main Street in Buffalo. This lease maintains a 3 year term and expires March 31, 2022. The Mission also has several minor equipment leases.

Subsequent to the year ended September 30, 2019, the Mission entered into a lease for warehouse space on Elm Street in Buffalo with a five year term which expires October 31, 2024.

Future approximate minimum lease payments are as follows:

2020	\$ 236,000
2021	95,000
2022	71,000
2023	64,000
2024	60,000
Thereafter	<u>10,000</u>
	<u>\$ 536,000</u>

Lease expense relating to these agreements amounted to \$238,339 for the year ended September 30, 2019 (\$254,513 - 2018).

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:

2020	\$ 217,000
2021	<u>278,000</u>
Total	<u>\$ 495,000</u>

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. OPERATING LEASES (CONTINUED)

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 \$132,238 for the fiscal year ended September 30, 2019 (\$120,326 - 2018).

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

2020	\$ 54,557
2021	<u>41,831</u>
Total	<u>\$ 96,388</u>

Rent expense relating to the lease expense and the additional lease expense for their share of the building expenses amounted to \$140,378 for the fiscal year ended September 30, 2019 (\$128,029 - 2018).

NOTE 14. VALUE OF DONATED GOODS

Gifts of food and clothing at September 30, 2019 were valued at \$347,961 (\$433,194 - 2018) and \$1,039,077 (\$837,515 - 2018), respectively. The value of donated food and clothing recognized was based on the number of meals served at a standard cost of \$2.74 (\$2.74 - 2018) per meal, the number of grocery bags distributed at a standard cost of \$25 (\$25 - 2018) per bag, and the number of bags of clothing distributed to clients at a standard cost of \$120 (\$120 - 2018) per bag. There were no donated automobiles during the year ended September 30, 2019 (\$2,050 - 2018).

NOTE 15. 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, 2019 amounted to \$10,465 (\$10,465 - 2018).

NOTE 16. 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 17. ENDOWMENT

The Mission's endowment consists of one individual fund which is permanently restricted in the amount of \$100,000 at September 30, 2019 (\$100,000 - 2018) and the Mission's \$33,826 (\$33,778 - 2018) 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 17. 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. There were no deficiencies as of September 30, 2019 and 2018. 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:

	2019		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 128,838	\$ 128,838
Perpetual charitable trusts	<u>-</u>	<u>33,826</u>	<u>33,826</u>
Total endowment net assets	<u>\$ -</u>	<u>\$ 162,664</u>	<u>\$ 162,664</u>
	2018		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 130,620	\$ 130,620
Perpetual charitable trusts	<u>-</u>	<u>33,778</u>	<u>33,778</u>
Total endowment net assets	<u>\$ -</u>	<u>\$ 164,398</u>	<u>\$ 164,398</u>

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. ENDOWMENT (CONTINUED)

Changes in the Mission's endowment net assets for the years ended September 30, 2019 and 2018 are as follows:

	2019		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net asset October 1, 2018	\$ -	\$ 164,398	\$ 164,398
Investment return:			
Investment return	-	(1,782)	(1,782)
Perpetual trust return	<u>-</u>	<u>48</u>	<u>48</u>
Endowment net assets September 30, 2019	<u>\$ -</u>	<u>\$ 162,664</u>	<u>\$ 162,664</u>
	2018		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net asset October 1, 2017	\$ -	\$ 144,906	\$ 144,906
Investment return:			
Investment return	-	8,509	8,509
Perpetual trust return		1,324	1,324
Contributions received	<u>-</u>	<u>9,659</u>	<u>9,659</u>
Endowment net assets September 30, 2018	<u>\$ -</u>	<u>\$ 164,398</u>	<u>\$ 164,398</u>

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18. NET ASSETS

At September 30, 2019 and 2018, net assets with donor restrictions are available for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Time restrictions:		
Capital campaign (A)	\$ 6,986,735	\$ 1,248,135
Pledges receivable (A)	1,714,126	1,695,734
Federal Home Loan Bank contribution receivable (A)	-	3,263,592
Split-interest agreements, which are unavailable for spending Until the deaths of the beneficiaries	37,723	35,560
Endowment Funds, which must be appropriated by the Board of Directors before use:		
Donors specified for the general use of the Mission, time restricted until appropriated (original gift \$100,000)	128,838	130,620
Beneficial interest in perpetual trusts	<u>33,826</u>	<u>33,778</u>
Total net assets with donor restrictions	<u>\$ 8,901,248</u>	<u>\$ 6,407,419</u>

(A) Also purpose restricted for capital purposes.