

**AUDITED  
CONSOLIDATED FINANCIAL STATEMENTS**

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

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**SEPTEMBER 30, 2021**

**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, 2021 and 2020, 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, 2021 and 2020, 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  
March 7, 2022

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

September 30,

<b>ASSETS</b>	<b>2021</b>	<b>2020</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,461,868	\$ 2,357,651
Contributions, bequests and grants receivable	795,446	810,000
Current portion pledges receivable - capital campaign, net	649,667	1,032,150
Other receivables	86,168	71,493
Note receivable	-	523,600
Inventory	383,288	232,115
Prepaid expenses and other current assets	88,674	68,251
Total current assets	<u>3,465,111</u>	<u>5,095,260</u>
<b>Restricted deposits and funded reserves</b>	<b>837,284</b>	<b>445,282</b>
<b>Investments</b>	<b>933,417</b>	<b>717,858</b>
<b>Land, buildings and equipment, net</b>	<b>19,952,642</b>	<b>17,693,942</b>
<b>Pledges receivable - capital campaign, net</b>	<b>23,290</b>	<b>832,171</b>
<b>Other assets:</b>		
Beneficial interest in charitable trusts	84,073	75,691
Investments in affiliate	-	36,702
Total other assets	<u>84,073</u>	<u>112,393</u>
	<u><b>\$ 25,295,817</b></u>	<u><b>\$ 24,896,906</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 108,848	\$ 778,765
Accrued expenses	140,316	97,304
Refundable advances	353,741	359,256
Current portion of notes payable	1,012,088	519,244
Total current liabilities	<u>1,614,993</u>	<u>1,754,569</u>
<b>Notes payable</b>	<u><b>7,568,259</b></u>	<u><b>9,094,363</b></u>
Total liabilities	<b>9,183,252</b>	<b>10,848,932</b>
<b>Net assets:</b>		
Without donor restrictions	15,178,266	4,550,011
With donor restrictions	934,299	9,497,963
Total net assets	<u><b>16,112,565</b></u>	<u><b>14,047,974</b></u>
	<u><b>\$ 25,295,817</b></u>	<u><b>\$ 24,896,906</b></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, 2021

(with Summarized Information for the Year Ended September 30, 2020)

	Without Donor Restrictions	With Donor Restrictions	Total 2021	Total 2020
<b>Revenue:</b>				
<b>Public support:</b>				
Donations from individuals, businesses and churches	\$ 5,566,403	\$ 964,709	\$ 6,531,112	\$ 5,444,087
Capital campaign	964,709	-	964,709	1,974,556
Bequests and memorials	541,794	-	541,794	256,698
Food and clothing donations	985,035	-	985,035	1,068,138
Grants	2,231,733	-	2,231,733	1,463,834
Net assets released from restrictions	9,576,333	(9,576,333)	-	-
Total public support	19,866,007	(8,611,624)	11,254,383	10,207,313
<b>Other revenue (expense):</b>				
Thrift store revenue	378,484	-	378,484	278,105
Rental revenue	226,249	-	226,249	35,533
Investment income, net	176,532	39,578	216,110	50,884
Inherent contribution from business acquisition	282,569	-	282,569	-
Miscellaneous revenue	57,745	-	57,745	35,002
Rags salvage revenue	40,112	-	40,112	53,258
Interest income	17,987	-	17,987	27,219
Change in beneficial interest in charitable trusts	-	8,382	8,382	4,142
Management fee revenue	-	-	-	10,727
Grant expense	-	-	-	(274,226)
Loss on disposal of furniture and equipment	-	-	-	(283,110)
Loss on investment in affiliate	(36,702)	-	(36,702)	(421,512)
Interest expense	(221,142)	-	(221,142)	-
Total other revenue (expense)	921,834	47,960	969,794	(483,978)
Total revenue	20,787,841	(8,563,664)	12,224,177	9,723,335
<b>Expenses:</b>				
Program services	7,137,267	-	7,137,267	6,509,772
Fundraising	2,000,440	-	2,000,440	2,376,069
Management and general	1,021,879	-	1,021,879	755,410
Total expenses	10,159,586	-	10,159,586	9,641,251
<b>Change in net assets</b>	10,628,255	(8,563,664)	2,064,591	82,084
Net assets - beginning	4,550,011	9,497,963	14,047,974	13,965,890
Net assets - ending	\$ 15,178,266	\$ 934,299	\$ 16,112,565	\$ 14,047,974

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended September 30, 2020

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total 2020</u>
<b>Revenue:</b>			
<b>Public support:</b>			
Donations from individuals, businesses and churches	\$ 5,444,087	\$ -	\$ 5,444,087
Capital campaign	-	1,974,556	1,974,556
Bequests and memorials	256,698	-	256,698
Food and clothing donations	1,068,138	-	1,068,138
Grants	1,463,834	-	1,463,834
Net assets released from restrictions	704,892	(704,892)	-
Total public support	<u>8,937,649</u>	<u>1,269,664</u>	<u>10,207,313</u>
<b>Other revenue (expense):</b>			
Thrift store revenue	278,105	-	278,105
Rags salvage revenue	53,258	-	53,258
Investment income, net	42,031	8,853	50,884
Rental revenue	35,533	-	35,533
Miscellaneous revenue	35,002	-	35,002
Interest income	27,219	-	27,219
Management fee revenue	10,727	-	10,727
Change in beneficial interest in charitable trusts	-	4,142	4,142
Grant expense	(274,226)	-	(274,226)
Loss on disposal of furniture and equipment	(283,110)	-	(283,110)
Loss on investment in affiliate	(421,512)	-	(421,512)
Total other revenue (expense)	<u>(496,973)</u>	<u>12,995</u>	<u>(483,978)</u>
Total revenue	8,440,676	1,282,659	9,723,335
<b>Expenses:</b>			
Program services	6,509,772	-	6,509,772
Fundraising	2,376,069	-	2,376,069
Management and general	755,410	-	755,410
Total expenses	<u>9,641,251</u>	<u>-</u>	<u>9,641,251</u>
<b>Change in net assets</b>	(1,200,575)	1,282,659	82,084
Net assets - beginning	<u>5,750,586</u>	<u>8,215,304</u>	<u>13,965,890</u>
Net assets - ending	<u>\$ 4,550,011</u>	<u>\$ 9,497,963</u>	<u>\$ 14,047,974</u>

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2021

(with Summarized Information for the Year Ended September 30, 2020)

	Program Services			Supporting Services			Total All Services	
	Program Services	Retail	Total Program	Fundraising	Management And General	Total Supporting	2021	2020
Salaries	\$ 3,521,246	\$ 264,435	\$ 3,785,681	\$ 103,727	\$ 539,128	\$ 642,855	\$ 4,428,536	\$ 3,886,186
Employee benefits	522,010	47,404	569,414	16,781	75,890	92,671	662,085	655,976
Payroll taxes	212,583	17,907	230,490	6,229	41,280	47,509	277,999	256,993
Unemployment	9,466	-	9,466	-	37,517	37,517	46,983	28,360
Total salaries and benefits	4,265,305	329,746	4,595,051	126,737	693,815	820,552	5,415,603	4,827,515
Fundraising and mailing expense	114	7	121	1,331,428	1,041	1,332,469	1,332,590	1,583,157
Rent/lease	102,903	231,730	334,633	-	-	-	334,633	609,032
Donated clothing	31,440	405,757	437,197	-	-	-	437,197	434,804
Donated food	323,828	-	323,828	-	-	-	323,828	426,523
Other consultants	79,114	270	79,384	191,092	49,067	240,159	319,543	245,185
Food purchases	172,313	-	172,313	-	-	-	172,313	235,711
Utilities	216,770	34,778	251,548	-	-	-	251,548	190,492
Supplies	27,177	2,001	29,178	-	1,709	1,709	30,887	149,491
Printing and advertising	-	-	-	173,927	-	173,927	173,927	136,439
Bank fees	-	4,936	4,936	24,261	87,608	111,869	116,805	97,167
Resident aid and direct assistance	122,087	-	122,087	-	-	-	122,087	70,577
Insurance	95,524	3,615	99,139	-	-	-	99,139	59,617
Professional fees	14,399	-	14,399	-	47,048	47,048	61,447	53,634
Office expenses	24,743	2,265	27,008	5,575	57,940	63,515	90,523	52,390
Travel and entertainment	4,651	25	4,676	857	10,862	11,719	16,395	50,638
Subscriptions	3,400	-	3,400	833	3,835	4,668	8,068	49,378
Janitorial expense	49,087	-	49,087	-	-	-	49,087	26,438
Payroll processing fees	1,682	-	1,682	-	33,711	33,711	35,393	24,336
Vehicles operating expense	14,522	8,186	22,708	-	-	-	22,708	21,156
Kitchen supplies	24,394	-	24,394	-	-	-	24,394	19,921
Bad debt	-	-	-	144,182	-	144,182	144,182	15,000
Computer expenses	34,981	1,466	36,447	1,548	50	1,598	38,045	11,164
Membership dues and expenses	5,161	-	5,161	-	308	308	5,469	10,901
Seminars	12,310	-	12,310	-	820	820	13,130	7,534
Repairs and maintenance	17,832	984	18,816	-	-	-	18,816	5,659
Equipment under \$1,000	33,933	4,071	38,004	-	12,640	12,640	50,644	5,027
Laundry and linen supplies	2,828	-	2,828	-	-	-	2,828	4,100
Taxes and licenses	13,838	-	13,838	-	-	-	13,838	2,783
Miscellaneous	3,809	-	3,809	-	3,652	3,652	7,461	2,354
Total before depreciation	5,698,145	1,029,837	6,727,982	2,000,440	1,004,106	3,004,546	9,732,528	9,428,123
Depreciation	409,285	-	409,285	-	17,773	17,773	427,058	213,128
Total functional expenses	\$ 6,107,430	\$ 1,029,837	\$ 7,137,267	\$ 2,000,440	\$ 1,021,879	\$ 3,022,319	\$ 10,159,586	\$ 9,641,251

See accompanying notes.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES  
For the Year Ended September 30, 2020

	Program Services			Supporting Services		Total Supporting	Total All Services 2020
	Program Services	Retail	Total Program	Fundraising	Management And General		
Salaries	\$ 2,943,474	\$ 217,886	\$ 3,161,360	\$ 352,164	\$ 372,662	\$ 724,826	\$ 3,886,186
Employee benefits	506,312	58,053	564,365	62,505	29,106	91,611	655,976
Payroll taxes	185,262	16,800	202,062	26,717	28,214	54,931	256,993
Unemployment	18,553	-	18,553	-	9,807	9,807	28,360
Total salaries and benefits	3,653,601	292,739	3,946,340	441,386	439,789	881,175	4,827,515
Fundraising and mailing expense	-	-	-	1,580,891	2,266	1,583,157	1,583,157
Rent/lease	349,141	253,142	602,283	6,749	-	6,749	609,032
Donated clothing	109,320	325,484	434,804	-	-	-	434,804
Donated food	426,523	-	426,523	-	-	-	426,523
Other consultants	20,398	45	20,443	170,817	53,925	224,742	245,185
Food purchases	235,711	-	235,711	-	-	-	235,711
Utilities	157,474	33,018	190,492	-	-	-	190,492
Supplies	128,665	3,211	131,876	-	17,615	17,615	149,491
Printing and advertising	-	-	-	136,439	-	136,439	136,439
Bank fees	-	6,175	6,175	20,543	70,449	90,992	97,167
Subscriptions	43,701	-	43,701	1,555	4,122	5,677	49,378
Resident aid and direct assistance	70,577	-	70,577	-	-	-	70,577
Insurance	56,522	3,095	59,617	-	-	-	59,617
Professional fees	-	-	-	-	53,634	53,634	53,634
Office expenses	17,461	221	17,682	2,332	32,376	34,708	52,390
Travel and entertainment	10,696	-	10,696	357	39,585	39,942	50,638
Janitorial expense	26,438	-	26,438	-	-	-	26,438
Payroll processing fees	-	-	-	-	24,336	24,336	24,336
Vehicles operating expense	13,034	8,122	21,156	-	-	-	21,156
Kitchen supplies	19,921	-	19,921	-	-	-	19,921
Bad debt	-	-	-	15,000	-	15,000	15,000
Computer expenses	11,119	45	11,164	-	-	-	11,164
Membership dues and expenses	10,901	-	10,901	-	-	-	10,901
Seminars	7,534	-	7,534	-	-	-	7,534
Repairs and maintenance	4,942	717	5,659	-	-	-	5,659
Equipment under \$1,000	3,082	-	3,082	-	1,945	1,945	5,027
Laundry and linen supplies	4,100	-	4,100	-	-	-	4,100
Taxes and licenses	2,783	-	2,783	-	-	-	2,783
Miscellaneous	-	-	-	-	2,354	2,354	2,354
Total before depreciation	5,383,644	926,014	6,309,658	2,376,069	742,396	3,118,465	9,428,123
Depreciation	200,114	-	200,114	-	13,014	13,014	213,128
Total functional expenses	\$ 5,583,758	\$ 926,014	\$ 6,509,772	\$ 2,376,069	\$ 755,410	\$ 3,131,479	\$ 9,641,251

See accompanying notes.



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

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

	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 2,064,591	\$ 82,084
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Forgiveness of debt	(523,600)	-
Inherent contribution from business acquisition	(282,569)	-
Depreciation	427,058	213,128
Amortization of debt issuance costs	14,460	-
Donated investments	(14,608)	(10,078)
In-kind contributions	-	(47,703)
Gain on beneficial interest in charitable trusts	(8,382)	(4,142)
Loss on investment in affiliate	36,702	421,512
Net realized and unrealized loss (gain) on investments	(192,798)	(15,458)
Loss on disposal of furniture and equipment	-	283,110
Contributions restricted for capital uses	(2,156,073)	(1,780,861)
Decrease (increase) in:		
Other receivables	(14,675)	27,696
Inventory	(151,173)	(206,810)
Prepaid expenses and other current assets	6,212	(8,602)
Contributions, bequests and grants receivable	14,554	270,277
Pledges receivable - capital campaign, net	1,191,364	(150,195)
Increase (decrease) in:		
Accounts payable and accrued expenses	(639,126)	(1,282,566)
Refundable advances	(5,515)	359,256
Related party payable	-	(2,717)
<b>Net cash used by operating activities</b>	<u>(233,578)</u>	<u>(1,852,069)</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	4,684	4,778
Purchases of investments	(9,503)	(3,621)
Cash acquired from acquisition, net	577,165	-
Capital purchases	(1,868,445)	(1,501,480)
<b>Net cash used by investing activities</b>	<u>(1,296,099)</u>	<u>(1,500,323)</u>
<b>Cash flows from financing activities:</b>		
Contributions and grants restricted for capital purposes	2,156,073	1,780,861
Repayments of long-term debt	(1,126,843)	(1,000,000)
<b>Net cash provided by financing activities</b>	<u>1,029,230</u>	<u>780,861</u>
<b>Net change in cash, cash equivalents and restricted cash</b>	<u>(500,447)</u>	<u>(2,571,531)</u>
Cash, cash equivalents and restricted cash - beginning of year	<u>2,833,271</u>	<u>5,404,802</u>
Cash, cash equivalents and restricted cash - end of year	<u>\$ 2,332,824</u>	<u>\$ 2,833,271</u>
<b>Cash, cash equivalents and restricted cash are comprised of the following:</b>		
	<u>2021</u>	<u>2020</u>
Cash and cash equivalents - operating	\$ 1,461,868	\$ 2,357,651
Restricted deposits and funded reserves	837,284	445,282
Investments	33,672	30,338
	<u>\$ 2,332,824</u>	<u>\$ 2,833,271</u>

See accompanying notes.

## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cornerstone Manor, L.P. (A Limited Partnership) (Cornerstone) was organized under the laws of the State of New York for the purpose of constructing and operating housing for single women and women with children experiencing domestic violence, sexual abuse, stressful home environments, unhealthy living conditions, lack of education, job loss, mental illness and/or chemical dependency. The building consists of 28 emergency beds, 12 permanent supportive housing units, and 46 transitional housing units (34 single room units and 12 two-bedroom units). During the year ended September 30, 2021, the Mission acquired all partnership interests making Cornerstone a wholly owned subsidiary of the Mission (see Note 13).

**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. The aforementioned entities are the Special Limited Partner and General Partner, respectively, of Cornerstone and each own .005%.

Effective December 31, 2020, NEF Assignment Corporation (NEF), the Limited Partner, withdrew from Cornerstone and assigned the Limited Partner interest to the Mission for \$1. Previous to December 31, 2020, the Mission accounted for its .01% investment in Cornerstone through Manor Partner, Inc. and Cornerstone Partner, LLC under the equity method of accounting. The Mission recorded its gain in control of Cornerstone as a step acquisition in accordance with ASC 958 (See Note 13). Subsequent to December 31, 2020, all significant intercompany balances and transactions have been eliminated.

**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 (US GAAP). 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.

**Revenue Recognition:** The Mission recognizes contributions when cash, securities or other assets; or an unconditional promise to give is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. The Mission recognizes revenue from the thrift store at the point of sale.

**Rental Income:** Cornerstone recognizes rental revenue on the date rent becomes due in accordance with the leases. Rental payments received in advance are deferred until earned. All leases between parties are operating leases.

**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, 2021 or 2020.

CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

**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, 2021 and 2020.

**Refundable Advances:** Grant revenue is recognized when the qualifying costs are incurred or when a unit of service is provided for performance grants. Refundable advances represent funds received for which the Mission has not yet incurred the qualifying costs or performed the required compliance activity.

**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 from 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.

***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. 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.

**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.

## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

**Beneficial Interest in Charitable 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 charitable 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.

The Mission also has several savings accounts with the Wesleyan Investment Foundation (WIF). 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 are included in cash and cash equivalents and the special purpose reserve.

**Expense Recognition and Allocation:** The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function; 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.

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.

**Land, Buildings and Equipment:** Purchased property and equipment are stated at cost less accumulated depreciation. Donations of property and equipment, if any, are recorded as support at their estimated fair value. 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, 2021 and 2020.

**Contributions Receivable and Bequests Receivable:** 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. 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, 2021 and 2020.

**Pledges Receivable:** Pledges receivable are unconditional promises to give and are recognized as contributions when the promise is received. 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 fair value at the date of the promise. The fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue.

## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 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 an allowance of \$20,000 is necessary for the year ended September 30, 2021 (\$15,000 - 2020).

**Contributed Services:** The Mission benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the Mission's program operations. However, the majority of the contributed services do not meet the criteria for recognition in financial statements. US GAAP allows recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. There were no donated services that met criteria to be included in in-kind contributions in the statement of activities for the year ended September 30, 2021 (\$19,203 - 2020).

**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.

**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.

**Debt Issuance Costs:** Costs related to the acquisition of long-term debt are amortized over the life of the related debt instrument. Amortization of debt issuance costs amounted to \$32,183 for the years ended September 30, 2021 and 2020. The amortization of debt issuance costs began being included in interest expense once the building was placed in service.

**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.

Cornerstone Manor, L.P. is a limited partnership and therefore is taxed as a partnership and files partnership income tax returns in the U.S. federal and New York State jurisdictions.

**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, 2021. 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

In September 2020, the FASB issued ASU 2020-07, "Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets". This ASU changes the presentation and disclosure requirements for not-for-profit entities to increase transparency about contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022, with early adoption permitted. The Mission is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

**Subsequent events:** Subsequent events have been evaluated through March 7, 2022, which is the date the financial statements were available to be issue.

**NOTE 2. 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, are:

	<u>2021</u>	<u>2020</u>
<b>Current financial assets without donor restriction:</b>		
Cash and cash equivalents	\$ 1,461,868	\$ 2,357,651
Pledges receivable	649,667	1,032,150
Contributions, bequests and grants receivable	795,446	810,000
Other receivables	86,168	71,493
Total current financial assets	<u>2,993,149</u>	<u>4,271,294</u>
Less: Cash restricted for refundable advances	(353,740)	(85,030)
Less: Pledges restricted for capital purposes	-	(1,032,150)
Less: Cash restricted for capital purposes	<u>-</u>	<u>(1,913,709)</u>
<b>Amount available for general expenditures within one year</b>	<b><u>\$ 2,639,408</u></b>	<b><u>\$ 1,240,405</u></b>

The Mission has an 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 which amounted to \$722,477 at September 30, 2021 (\$580,167 - 2020). 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 6).

**NOTE 3. PLEDGES RECEIVABLE**

Contributions, including pledges receivable to the Mission in the future, are recognized when received. A risk adjusted rate of 3.25% was used for the years ended September 30, 2021 and 2020. Pledges receivable, net, are summarized as follows at September 30:

	<u>2021</u>	<u>2020</u>
Pledges receivable to be collected in:		
Less than one year	\$ 669,667	\$ 1,047,150
One to five years	41,500	917,836
	<u>711,167</u>	<u>1,964,986</u>
Less: allowance for uncollectible pledges	(20,000)	(15,000)
Less: present value discount	<u>(18,210)</u>	<u>(85,665)</u>
	<b><u>\$ 672,957</u></b>	<b><u>\$ 1,864,321</u></b>

Bad debt expense for the year ended September 30, 2021 amounted to \$144,182 (\$15,000 - 2020).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4. LAND, BUILDINGS, EQUIPMENT AND DEPRECIATION**

Land, buildings, equipment and accumulated depreciation consisted of the following at September 30,:

	<u>Estimated Useful Life</u>	<u>2021</u>	<u>2020</u>
Land and buildings:			
Land and land improvements	-	\$ 119,279	\$ 19,279
Buildings	31.5 years	18,909,735	-
Equipment and furnishings	5 to 7 years	2,218,099	1,987,162
Leasehold improvements	10 to 15 years	128,989	126,322
Vehicle	5 to 7 years	62,487	62,487
Software	3 years	20,524	16,774
Construction in process	-	-	16,561,331
		<u>21,459,113</u>	<u>18,773,355</u>
Less: Accumulated depreciation		<u>(1,506,471)</u>	<u>(1,079,413)</u>
		<u>\$ 19,952,642</u>	<u>\$ 17,693,942</u>

Depreciation expense for the year ended September 30, 2021 amounted to \$413,612 (\$213,128 - 2020).

Construction in process represents costs incurred for a capital project which was placed in service during the year ended September 30, 2021.

**NOTE 5. 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: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Mission 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 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.

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).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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, 2021 and 2020.

*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.

*Units in CFGB:* The investments held by the CFGB are invested in a pooled investment portfolio valued by the CFGB 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 following table sets forth by level, within the fair value hierarchy, the Mission's assets at fair value as of September 30, 2021 and 2020:

	<b>Assets at Fair Value as of September 30, 2021</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock	\$ 198,282	\$ -	\$ -	\$ 198,282
Beneficial interest in assets held by CFGB	-	-	701,464	701,464
Money market funds	<u>33,671</u>	<u>-</u>	<u>-</u>	<u>33,671</u>
<b>Total assets at fair value</b>	<b><u>\$ 231,953</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 701,464</u></b>	<b><u>\$ 933,417</u></b>

  

	<b>Assets at Fair Value as of September 30, 2020</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock	\$ 142,666	\$ -	\$ -	\$ 142,666
Beneficial interest in assets held by CFGB	-	-	544,854	544,854
Money market funds	<u>30,338</u>	<u>-</u>	<u>-</u>	<u>30,338</u>
<b>Total assets at fair value</b>	<b><u>\$ 173,004</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 544,854</u></b>	<b><u>\$ 717,858</u></b>

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 investments for the year ended September 30,:

	<u>2021</u>	<u>2020</u>
Balance as of beginning of year	\$ 544,854	\$ 509,823
Interest and dividends	5,047	3,621
Fees	(4,683)	(4,559)
Unrealized gains	<u>156,246</u>	<u>35,969</u>
<b>Balance as of end of year</b>	<b><u>\$ 701,464</u></b>	<b><u>\$ 544,854</u></b>



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6. 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% (4.75% at September 30, 2021). There was no outstanding balance as of September 30, 2021 (\$0 - 2020). The line of credit is collateralized by a general security interest in the assets of the Mission.

**NOTE 7. NOTES PAYABLE**

	<u>2021</u>	<u>2020</u>
Note payable to the Federal Home Loan Bank of New York. The compliance requirements of the Note were satisfied during the year ended September 30, 2021 and the outstanding amount is included in grant income on the statement of activities and changes in net assets.	\$ -	\$ 523,600
Construction note payable to Evans Bank, N.A. with a fixed interest rate of 5.72%. The note required monthly interest only payments through April 1, 2021 (the conversion date). Effective September 1, 2021 the fixed interest rate was reduced to 4.72%. Monthly payments of principal and interest commenced on the conversion date over a 30-year amortization period with a final payment of all outstanding principal and accrued interest due on April 1, 2029. The loan is secured by the building.	<b>5,223,157</b>	5,250,000
Construction bridge note payable to Evans Bank, N.A with a variable interest rate of prime (3.25% at September 30, 2021). The note required monthly interest only payments through April 1, 2021 (the conversion date). Monthly interest only payments will continue with semi-annual principal payments. All remaining principal and accrued interest will be payable in full on April 1, 2024. The loan is secured by the building.	<b>2,900,000</b>	4,000,000
Note payable to the Buffalo Urban Renewal Agency (BURA) and does not bear interest. All principal is due and payable in July 2025. The note is secured by substantially all of Cornerstone's assets, including a mortgage on the building.	<u>585,000</u>	<u>-</u>
	<b>8,708,157</b>	9,773,600
Less debt issuance costs	<u>127,810</u>	159,993
	<b>8,580,347</b>	9,613,607
Less current portion, net	<u>1,012,088</u>	519,244
	<b>\$ <u>7,568,259</u></b>	<b>\$ <u>9,094,363</u></b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 7. NOTES PAYABLE (CONTINUED)**

Annual maturities of long-term debt for the years subsequent to 2021 are as follows:

	<u>Gross</u>	<u>Debt Issuance Costs</u>	<u>Net</u>
2022	\$ 1,044,271	\$ 32,183	\$ 1,012,088
2023	1,039,794	32,183	1,007,611
2024	1,074,798	16,355	1,058,443
2025	680,078	11,079	668,999
2026	99,730	11,079	88,651
Thereafter	<u>4,769,486</u>	<u>24,931</u>	<u>4,744,55</u>
	<u>\$ 8,708,157</u>	<u>\$ 127,810</u>	<u>\$ 8,580,347</u>

**NOTE 8. 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, 2021 or 2020.

**NOTE 9. VALUE OF DONATED GOODS**

Gifts of food and clothing at September 30, 2021 were valued at \$323,828 (\$426,524 - 2020) and \$661,207 (\$641,614 - 2020), 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 - 2020) per meal, the number of grocery bags distributed at a standard cost of \$25 (\$25 - 2020) per bag, and the number of bags of clothing distributed to clients at a standard cost of \$120 (\$120 - 2020) per bag.

**NOTE 10. OPERATING LEASES**

The Mission has an operating lease for its thrift store located in the Dick Urban Plaza in Cheektowaga. The lease had a seven-year term which expired on September 30, 2020. This lease was renewed commencing on October 1, 2020 with a five-year term expiring on September 30, 2025. The lease also requires additional payments of 3% of gross receipts in excess of \$550,000. Gross receipts have not and are not expected to exceed this level.

During the year ended September 30, 2020, the Mission entered into a lease for warehouse space on Elm Street in Buffalo with a five-year term which expires October 31, 2024. The Mission also has several minor vehicle and equipment leases.

Future approximate minimum lease payments are as follows:

2022	\$ 186,000
2023	187,000
2024	183,000
2025	<u>132,000</u>
	<u>\$ 688,000</u>

Lease expense relating to these agreements amounted to \$191,548 for the year ended September 30, 2021 (\$210,894 - 2020).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11. RESTRICTED CASH AND FUNDED RESERVES**

Under the terms of the Rent Support Agreement between the Mission and Cornerstone, the Mission established and holds a restricted Special Purpose Reserve with an annual minimum required balance outlined in the agreement. The Special Purpose Reserve funds are used annually to provide rent support to Cornerstone on behalf of the qualified women and children residents, as well as for additional lease payments for space used by the Mission for related services. Subsequent to the year ended September 30, 2021, the Rent Support Agreement expired, and the funds were released from restriction.

Cornerstone was required to establish a \$512,000 Operating Reserve. The operating reserve had annual funding requirements through 2015. Withdrawals from this account is subject to approval by the NYS Division of Housing and Community Renewal (DHCR).

The balances in the reserve accounts were as follows as of September 30,:

	<u>2021</u>	<u>2020</u>
Operating reserve	\$ 512,000	\$ -
Special purpose reserve	<u>325,284</u>	<u>445,282</u>
	<u>\$ 837,284</u>	<u>\$ 445,282</u>

**NOTE 12. NET ASSETS**

At September 30, 2021 and 2020, net assets with donor restrictions are available for the following purposes:

	<u>2021</u>	<u>2020</u>
<b>Time restrictions:</b>		
Capital campaign purchases and expenses	\$ -	\$ 7,420,260
Pledges receivable – capital campaign	<b>672,957</b>	1,864,321
Split-interest agreements, which are unavailable for spending Until the deaths of the beneficiaries	<b>45,671</b>	41,044
<b>Endowment Funds, which must be appropriated by the Board of Directors before use:</b>		
Donors specified for the general use of the Mission, time restricted until appropriated (original gift \$100,000)	<b>177,269</b>	137,691
<b>Beneficial interest in perpetual trusts</b>	<u><b>38,403</b></u>	<u>34,647</u>
<b>Total net assets with donor restrictions</b>	<u><b>\$ 934,300</b></u>	<u><b>\$ 9,497,963</b></u>

**NOTE 13. BUSINESS COMBINATION**

Previous to December 31, 2020, the limited partner of Cornerstone was NEF, and the Mission accounted for its .01% investment in Cornerstone through Manor Partner, Inc. and Cornerstone Partner, LLC under the equity method of accounting. Effective December 31, 2020, NEF withdrew from the Cornerstone and assigned the Limited Partner interest to the Mission for \$1. Based upon the agreement, NEF irrevocably and unconditionally assigned all of their economic right, title and interest including all of their rights to profits, losses distributions of Cornerstone, their capital contributions and all of their rights and claims to Cornerstone.

In accordance with ASC 958, the Mission accounted for the business combination as an acquisition. Accordingly, the excess of the fair value of net assets acquired over consideration transferred was recorded as an inherent contribution in the accompanying consolidated statement of activities and changes in net assets.

## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### NOTE 13. BUSINESS COMBINATION (CONTINUED)

The fair value of the assets and liabilities acquired as a result of this business combination were as follows:

Assets acquired and liabilities assumed:	
Cash	\$ 43,760
Funded reserves	533,405
Deposits	26,635
Building and land	685,000
Equipment	114,590
Accounts payable	(12,221)
Notes payable	<u>(1,108,600)</u>
Total identifiable net assets	<u>282,569</u>
Inherent contribution	\$ <u>282,569</u>

#### NOTE 14. RELATED PARTY TRANSACTIONS

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. The Cornerstone Manor, L.P. entity was formed to develop and own a facility that allowed for the expansion of the Cornerstone Manor program.

The Mission had a note receivable from Cornerstone in the amount of \$523,600. The funds were received by the Mission under a note payable (see Note 7) to Federal Home Loan Bank (FHLB). On January 1, 2021, the Mission executed an agreement to contribute the outstanding note receivable from Cornerstone as a capital contribution.

The Mission makes rent support payments to support the tenants in the building owned by Cornerstone. The payments required under the rent support agreement are made from the special purpose reserve (see Note 1). The amounts owed per the agreement are reduced by payments that Cornerstone collects from tenants or Erie County. 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. Rent expense relating to the agreements amounted to \$283,582 for the year ended September 30, 2021 (\$308,883 - 2020) of which \$213,370 was eliminated upon consolidation (\$0 - 2020).

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 net amount owed to Cornerstone from the Mission at September 30, 2021 was \$1,842 (\$21,055 - 2020). For the year ended September 30, 2021 this amount eliminates upon consolidation. For the year ended September 30, 2020, presentation of the net amount owed is included on the accompanying consolidated statements of financial position in accounts payable.

Prior to December 31, 2020, the Mission recorded its investment in Cornerstone on the equity method. During the year ended September 30, 2021, the Mission recorded a loss on the investment in Cornerstone of \$36,702 (\$421,512 - 2020). As of September 30, 2021, the investment in Cornerstone amounted to \$236,873 (\$36,702 - 2020). After December 31, 2020, the investment in Cornerstone and the intercompany activity was eliminated upon consolidation.

## CITY MISSION SOCIETY, INC. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### NOTE 15. COVID-19 FINANCIAL STATEMENT IMPACTS

During the year ended September 30, 2021, the Mission was granted a loan in the amount of \$869,173 under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner (\$799,340 - 2020). The loan is uncollateralized and is fully guaranteed by the Federal government. The Mission initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Mission has recognized \$869,173 as grant revenue for the year ended September 30, 2021 (\$799,340 - 2020).

#### 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.

Cornerstone received a grant from NYS Homeless Housing and assistance Corporation (HHAC) during the construction and rehab of the property. The grant required Cornerstone to operate as housing for the homeless for a period of 30 years. The grant is converted to a mortgage loan if the Company does not comply. The amount is recognized as a contingent liability since it will remain a grant to the Company, contingent upon contract compliance throughout the 30-year contract term. After the compliance period is achieved, HHAC will release the contingency by discharging the mortgage rather than collect any repayment. If Cornerstone does not comply with the contract terms the amounts provided are considered in default and payable back to HHAC. The balance of the contingent liability comprised of principal and interest are deferred until the end of the 30-year contract compliance period and amounted to \$3,698,400 and \$572,464 at September 30, 2021, respectively. Cornerstone is fully in compliance and anticipates operating as housing for the homeless through the remaining compliance period ending in 2036.

#### NOTE 17. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the year ended September 30,:

	<u>2021</u>	<u>2020</u>
Cash paid during the year for interest	\$ <u>365,006</u>	\$ <u>443,994</u>
Donated clothes and food	\$ <u>985,035</u>	\$ <u>1,068,138</u>
Forgiveness of debt	\$ <u>523,600</u>	\$ <u>-</u>
Capital assets acquired with debt	\$ <u>-</u>	\$ <u>6,730,846</u>
Capital assets included in accounts payable	\$ <u>-</u>	\$ <u>273,379</u>
Capital assets acquired from in-kind donations	\$ <u>-</u>	\$ <u>47,703</u>