THE CITY MISSION AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016 AND 2015

Walthall Rea

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INDEPENDENT AUDITORS' REPORT

May 23, 2018

To the Board of Trustees
The City Mission
Cleveland, Ohio

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The City Mission and Affiliates, which comprise the consolidated statement of financial position as of September 30, 2016, and the related consolidated statements of activities and change in net assets, cash flows, and functional expenses for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 from 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 auditors' 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 consolidated financial position of The City Mission and Affiliates as of September 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2016 consolidated financial statements as a whole. The supplemental consolidating information is presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Matter

The consolidated financial statements of The City Mission and Affiliates for the year ended September 30, 2015 were audited by Walthall, LLP, who merged with Rea & Associates, Inc. on November 1, 2017. They expressed an unmodified opinion on those statements on October 9, 2017.

Rea & Associates, Inc.

Certified Public Accountants

THE CITY MISSION AND AFFILIATES

Consolidated Statements of Financial Position

September 30, 2016 and 2015

ASSETS

	2016	2015
Current		
Cash and cash equivalents	$ 692,785	$ 624,918
Accounts receivable	843,632	1,179,434
Promises to give	176,651	95,434
Investments	200,842	87,043
Prepaid expenses	41,090	43,366
Total Current Assets	1,955,000	2,030,195
Property and Equipment, Net	9,615,346	9,940,240
Other		
Annuity	151,020	147,385
Total Assets	**$ 11,721,366**	**$ 12,117,820**

LIABILITIES

	2016	2015
Current		
Accounts payable	$ 1,261,361	$ 1,439,372
Accrued vacation	125,352	186,792
Accrued payroll	18,000	33,000
Annuity payment liability	56,483	56,483
Total Current Liabilities / Total Liabilities	1,461,196	1,715,647

NET ASSETS

	2016	2015
Net Assets		
Unrestricted	10,220,870	10,362,873
Temporarily restricted	38,300	38,300
Permanently restricted	1,000	1,000
Total Net Assets	10,260,170	10,402,173
Total Liabilities and Net Assets	**$ 11,721,366**	**$ 12,117,820**

The accompanying notes are an integral part of the consolidated financial statements.

THE CITY MISSION AND AFFILIATES

Consolidated Statements of Activities and Change in Net Assets

For the Years Ended September 30, 2016 and 2015

	2016	2015
Unrestricted Net Assets		
Support and Revenues		
Contributions	$ 6,444,777	$ 5,897,136
Contributions- donated marketable securities	101,075	105,533
Contributions- donated materials and services	223,415	161,656
Interest and dividend income	17,030	20,234
Realized and unrealized gains (losses) on investments	26,717	(9,241)
Gain on disposal of property	-	4,867
Other income	179,370	160,250
Special events	113,830	102,087
	7,106,214	6,442,522
For profit revenue:		
MRA revenue	5,011,099	4,103,841
Total support and revenues	12,117,313	10,546,363
Functional Expenses		
Program expenses	5,600,229	5,266,140
Development	445,069	293,305
Administrative expenses	322,530	182,279
Total functional expenses	6,367,828	5,741,724
Other Expenses		
TCMSF expenses	5,555	-
For profit expenses:		
MRA expenses	5,885,933	4,793,939
Other expenses	-	183,100
	5,891,488	4,977,039
Decrease in Net Assets	(142,003)	(172,400)
Net Assets - Beginning of Year	10,402,173	10,574,573
Net Assets - End of Year	**$ 10,260,170**	**$ 10,402,173**

The accompanying notes are an integral part of the consolidated financial statements.

THE CITY MISSION AND AFFILIATES

Consolidated Statements of Cash Flows

For the Years Ended September 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Decrease in net assets	$ (142,003)	$ (172,400)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	592,567	573,071
Non-cash contributions	(324,490)	(267,189)
Non-cash expenses	223,415	161,656
Realized and unrealized losses (gains) on investments	(26,717)	9,241
Gain on disposal of property and equipment	-	(4,867)
Changes in assets and liabilities:		
Accounts receivable	335,802	(241,997)
Promises to give	(81,217)	10,000
Prepaid expenses	2,276	97,176
Accounts payable	(178,011)	384,836
Accrued vacation	(61,440)	76,960
Accrued workers' compensation	-	(17,915)
Accrued payroll	(15,000)	8,000
Annuity payment liability	-	(9,273)
Total adjustments	467,185	779,699
Net Cash Provided By Operating Activities	325,182	607,299
Cash Flows from Investing Activities		
Proceeds from sale of investments	10,358	60,511
Proceeds from sale of beneficial interest	-	14,017
Purchase of property and equipment	(267,673)	(387,750)
Net Cash Used In Investing Activities	(257,315)	(313,222)
Cash Flows from Financing Activities		
Line of credit, net	-	(205,828)
Net Cash Used In Financing Activities	-	(205,828)
Net Increase in Cash and Cash Equivalents	67,867	88,249
Cash and Cash Equivalents - Beginning	624,918	536,669
Cash and Cash Equivalents - Ending	**$ 692,785**	**$ 624,918**
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year:		
Interest	**$ -**	**$ 741**
Income taxes	**$ -**	**$ -**
Non-cash investing and financing activities:		
Donated marketable securities	**$ 101,075**	**$ 105,533**

The accompanying notes are an integral part of the consolidated financial statements.

THE CITY MISSION AND AFFILIATES

Consolidated Statement of Functional Expenses

For the Year Ended September 30, 2016

	Program Expenses							
	Crossroads Men's Ministry	Mental Health Ministry	Inmate Outreach Services Ministry	Laura's Home	Total Program Expenses	Development	Administrative and General	Total Expenses
Gross wages	$ 843,741	$ 330,068	$ 146,477	$ 996,709	$ 2,316,995	$ 128,962	$ 212,669	$ 2,658,626
Payroll taxes	60,335	24,028	9,602	73,896	167,861	9,513	15,901	193,275
Insurance and workers' compensation	144,827	69,834	10,734	186,312	411,707	17,231	28,425	457,363
Retirement plan expenses	27,532	13,111	6,602	40,972	88,217	6,203	8,654	103,074
Staff development	15,164	14,776	2,707	14,517	47,164	3,199	1,976	52,339
Recruitment and relocation expenses	1,114	278	278	1,114	2,784	262	229	3,275
Total employee expenses	1,092,713	452,095	176,400	1,313,520	3,034,728	165,370	267,854	3,467,952
Food	189,299	13	(273)	152,459	341,498	(292)	28	341,234
Client programs	36,278	944	22,582	33,893	93,697	110	96	93,903
Total client expenses	225,577	957	22,309	186,352	435,195	(182)	124	435,137
Gas	7,109	602	-	6,083	13,794	-	1,213	15,007
Electric	47,235	11,499	-	73,776	132,510	-	23,334	155,844
Water / sewer	44,742	2,579	-	28,508	75,829	-	9,156	84,985
Telephone	9,971	8,923	3,431	4,570	26,895	-	11,381	38,276
Total utilities	109,057	23,603	3,431	112,937	249,028	-	45,084	294,112
Insurance - building	9,732	4,326	-	4,326	18,384	-	3,244	21,628
Custodial expenses	49,591	-	-	48,067	97,658	-	-	97,658
Repair and maintenance	85,214	2,126	-	90,798	178,138	-	6,410	184,548
Vehicle expenses	3,049	1,411	1,532	4,024	10,016	-	1,365	11,381
Total facility and vehicle expenses	147,586	7,863	1,532	147,215	304,196	-	11,019	315,215
Office and postage	55,968	40,113	36,953	49,662	182,696	4,912	37,344	224,952
Insurance - liability	6,163	5,520	4,990	10,761	27,434	-	690	28,124
Professional services	19,311	19,311	19,311	19,311	77,244	-	19,311	96,555
Fundraising - education	384,957	109,988	109,988	494,945	1,099,878	-	-	1,099,878
Fundraising - development	-	-	-	-	-	274,969	-	274,969
Total organizational expenses	466,399	174,932	171,242	574,679	1,387,252	279,881	57,345	1,724,478
Total cash expenses	2,041,332	659,450	374,914	2,334,703	5,410,399	445,069	381,426	6,236,894
Client programs (clothing and misc.)	46,938	-	-	38,794	85,732	-	-	85,732
Repairs and maintenance	42,377	277	-	95,029	137,683	-	-	137,683
Total donated goods and services expenses	89,315	277	-	133,823	223,415	-	-	223,415
Total expenses before depreciation	2,130,647	659,727	374,914	2,468,526	5,633,814	445,069	381,426	6,460,309
Depreciation	259,562	20,420	12,336	284,661	576,979	-	15,588	592,567
Total functional expenses before intercompany eliminations	2,390,209	680,147	387,250	2,753,187	6,210,793	445,069	397,014	7,052,876
Intercompany eliminations	-	-	-	-	(610,564)	-	(74,484)	(685,048)
Total functional expenses	**$ 2,390,209**	**$ 680,147**	**$ 387,250**	**$ 2,753,187**	**$ 5,600,229**	**$ 445,069**	**$ 322,530**	**$ 6,367,828**

The accompanying notes are an integral part of the consolidated financial statements.

THE CITY MISSION AND AFFILIATES

Consolidated Statement of Functional Expenses

For the Year Ended September 30, 2015

	Program Expenses							
	Crossroads Men's Ministry	Mental Health Ministry	Inmate Outreach Services Ministry	Laura's Home	Total Program Expenses	Development	Administrative and General	Total Expenses
Gross wages	$ 820,881	$ 85,514	$ 129,601	$ 965,073	$ 2,001,069	$ 68,532	$ 51,942	$ 2,121,543
Payroll taxes	55,913	5,941	7,986	68,775	138,615	4,916	3,541	147,072
Insurance and workers' compensation	172,849	14,678	15,387	159,240	362,154	10,022	11,207	383,383
Retirement plan expenses	29,414	5,879	7,709	34,218	77,220	2,038	3,909	83,167
Staff development	7,453	1,644	1,644	27,322	38,063	2,244	1,138	41,445
Recruitment and relocation expenses	-	-	-	-	-	-	11,441	11,441
Total employee expenses	1,086,510	113,656	162,327	1,254,628	2,617,121	87,752	83,178	2,788,051
Food	174,020	2	(260)	140,306	314,068	(86)	(1)	313,981
Client programs	26,590	11,496	33,893	34,211	106,190	174	63	106,427
Total client expenses	200,610	11,498	33,633	174,517	420,258	88	62	420,408
Gas	19,641	994	681	18,859	40,175	-	3,024	43,199
Electric	42,602	1,393	1,393	53,248	98,636	-	12,536	111,172
Water / sewer	34,677	1,591	1,591	30,795	68,654	-	6,049	74,703
Telephone	30,579	744	6,837	5,900	44,060	4,160	11,406	59,626
Total utilities	127,499	4,722	10,502	108,802	251,525	4,160	33,015	288,700
Insurance - building	18,528	604	1,275	9,130	29,537	-	671	30,208
Custodial expenses	43,403	-	4,823	35,761	83,987	-	-	83,987
Repair and maintenance	74,399	3,255	3,255	79,943	160,852	-	16,993	177,845
Vehicle expenses	4,331	2,446	1,655	3,379	11,811	7	888	12,706
Total facility and vehicle expenses	140,661	6,305	11,008	128,213	286,187	7	18,552	304,746
Office and postage	38,513	31,802	36,944	42,623	149,882	8,764	13,979	172,625
Uncollectible receivables	-	-	-	-	-	-	19,706	19,706
Insurance - liability	7,252	3,996	3,996	4,359	19,603	-	329	19,932
Professional services	7,703	7,703	7,703	7,703	30,812	-	3,423	34,235
Fundraising - education	434,406	124,116	124,116	558,522	1,241,160	-	-	1,241,160
Fundraising - development	-	-	-	-	-	310,290	-	310,290
Total organizational expenses	487,874	167,617	172,759	613,207	1,441,457	319,054	37,437	1,797,948
Total cash expenses	2,043,154	303,798	390,229	2,279,367	5,016,548	411,061	172,244	5,599,853
Food	12,825	-	-	2,314	15,139	-	-	15,139
Client programs (clothing and misc.)	60,960	-	-	75,364	136,324	-	-	136,324
Repairs and maintenance	1,447	-	868	-	2,315	-	579	2,894
Communications	1,305	326	326	1,305	3,262	815	-	4,077
Professional services	1,289	322	322	1,289	3,222	-	-	3,222
Total donated goods and services expenses	77,826	648	1,516	80,272	160,262	815	579	161,656
Total expenses before depreciation	2,120,980	304,446	391,745	2,359,639	5,176,810	411,876	172,823	5,761,509
Depreciation	214,484	3,782	3,782	341,567	563,615	-	9,456	573,071
Total functional expenses before intercompany eliminations	2,335,464	308,228	395,527	2,701,206	5,740,425	411,876	182,279	6,334,580
Intercompany eliminations	-	-	-	-	(474,285)	(118,571)	-	(592,856)
Total functional expenses	**$ 2,335,464**	**$ 308,228**	**$ 395,527**	**$ 2,701,206**	**$ 5,266,140**	**$ 293,305**	**$ 182,279**	**$ 5,741,724**

The accompanying notes are an integral part of the consolidated financial statements.

Note 1 - Summary of Significant Accounting Policies

This summary of significant accounting policies of The City Mission (TCM) and Affiliates (collectively referred to as the Organization) is presented to assist in understanding the Organization's consolidated financial statements. The consolidated financial statements and notes are representations of the Organization's management, which is responsible for their integrity and objectivity.

Nature of Operations and Principles of Consolidation

TCM, incorporated in Ohio, is a non-profit organization that provides services, benefits, and activities that positively affect human health and welfare. The goal is to meet people at their point of crisis and move them through recovery so that they can successfully integrate into society as fully participating members. TCM provides food, shelter, clothing, and various programs to men, women, and children in order to break the cycle of poverty and homelessness. Its current operations include: Crossroads Men's Crisis Center; Pathways Family Outreach; Inmate Outreach Services Ministry; and Laura's Home Women's Crisis Center (crisis home and recovery program for women and children). The City Mission's support comes primarily through donor contributions, which are considered to be available for unrestricted use, unless otherwise specified by the donor.

The City Mission Support Foundation (TCMSF) was formed effective June 2, 2014, and is referred to as the affiliate in the consolidated financial statements. TCMSF is to be operated exclusively for charitable purposes and is organized under Section 501(c) (3) of the Internal Revenue Code (IRC). This entity owns 100% of Mission Resource Alliance, LLC (MRA) and New Horizon Programs, LLC (NHP). TCM and TCMSF are under common control, and there is economic interest among the entities, and therefore, the activities of TCMSF have been consolidated in the audited financial statements. The activity of TCMSF consists of MRA's accounts and NHP accounts. MRA provides direct mail consulting services to other non-profit organizations, with the income generated being used to support TCM's programs and operations. The majority of direct mail income and direct mail expenses relate to MRA's activities as reported in the consolidated statements of activities and change in net assets. New Horizons Program, LLC (NHP) is a part of a collaborative between the Cuyahoga County Land Reutilization Corp, NHP, and TCM, and is 100% owned by TCMSF. The collaborative identifies families that are prepared for homeownership, renovates homes, and matches eligible families with homes that are appropriate for their needs. TCMSF funds NHP and collects tax deductible donations on behalf of NHP.

Intercompany balances have been eliminated in the consolidated financial statements.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all unrestricted highly-liquid investments with an initial maturity of three months or less to be cash equivalents. All money market funds are treated as cash equivalents.

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of temporary cash investments and promises to give. There is limited concentration of credit risk with respect to promises to give.

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Financial Statement Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The financial presentation follows FASB ASC 958-205, Financial Statements of Not-for-Profit Organizations. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily-restricted net assets, and permanently-restricted net assets based on donor-imposed restrictions, if any. The Organization had temporarily-restricted net assets of $38,300 for the years ended September 30, 2016 and 2015. Temporarily-restricted support is recorded as unrestricted support if the restriction is met in the same period as the support is received. The Organization has permanently-restricted net assets of $1,000 at both September 30, 2016 and 2015.

Fair Value Measurement - Definition and Hierarchy

Financial instruments include cash, investments, beneficial interest, annuity, promises to give, money market funds, and accounts payable. The carrying amounts of these financial instruments have been estimated by management to approximate fair value.

The Organization follows the provisions of FASB ASC 820-10, Fair Value Measurements. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Organization uses various valuation approaches, including market, income, and / or cost approaches. FASB ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Organization. Unobservable inputs are inputs that reflect the Organization's assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, as follows:

- Level 1 - Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Promises to Give

Unconditional promises to give are recognized as receivables and revenues in the period in which the Organization is notified by the donor of the commitment to make a contribution. All donor-restricted contributions are reported as increases in temporarily or permanently-restricted net assets depending on the nature of the restrictions. When a temporary restriction expires, temporarily-restricted net assets are

Note 1 - Summary of Significant Accounting Policies (Continued)

Promises to Give (Continued)

reclassified to unrestricted net assets. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give as of both September 30, 2016 and 2015.

Allowance for Doubtful Accounts

Promises to give are stated at the present value of the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and a credit to a valuation allowance, based on its assessment of the current status of individual accounts.

Investments

The Organization follows FASB ASC 958-320, Accounting for Certain Investments Held by Not-for-Profit Organizations. Under FASB ASC 958-320, investments in marketable securities with readily determinable fair values and all investment in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and realized gains and losses are also recorded.

Beneficial Interest in Assets Held By The Cleveland Foundation

The Organization carried beneficial interest in assets held by The Cleveland Foundation at fair market value. This beneficial interest was closed in May 2015. Realized and unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities and change in net assets.

Property, Equipment, and Depreciation

Property and equipment are recorded at cost. Donated property and equipment are reflected as non-cash contributions at their estimated fair value at the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets. The capitalization policy of the Organization is $3,000.

Maintenance and repairs that do not significantly increase the useful life of an asset are charged directly to operations as incurred. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts in the year of disposal. Any resulting gain or loss is reflected in the current year change in net assets.

Annuity Liabilities

The Organization has established a gift annuity plan whereby donors may contribute assets in exchange for the right to receive a fixed dollar annual return during their lifetime. A portion of the transfer is considered to be a charitable contribution for income tax purposes for the donor.

Note 1 - Summary of Significant Accounting Policies (Continued)

Annuity Liabilities (Continued)

The difference between the amount provided for the gift annuity and the liability for future payments is reported as contributions at the date of the gift. The annuity liability is based upon computed present values using federal discount and mortality tables. Resulting gain or loss is reported in the consolidated statements of activities and changes in net assets (see Note 5).

Donated Materials and Services

Donated materials such as food and clothing are reflected as non-cash contributions at their estimated fair value at the date of receipt. The value of contributed services meeting the requirements of FASB ASC 958-605 has been recorded as non-cash contributions. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these particular services do not meet the criteria of FASB ASC 958-605.

Contributions

Contributions from individuals and various organizations are the primary source of revenues recorded in the year in which it is pledged. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Temporarily-restricted support is recorded as unrestricted support if the restriction is met in the same period as the support is received.

Taxes

TCM is a non-profit organization operating under Section 501(c)(3) of the IRC and also qualifies as a church within the meaning of Sections 509 (a)(1) and 170 (b)(1)(a)(1), and is exempt from federal, state, and city income taxes, and accordingly, is not required to file income tax returns. Also, the Organization is not liable for real estate taxes on property used for its exempt purposes.

TCMSF files tax returns and reports the activities of MRA as this activity is subject to unrelated business income taxes. Tax returns are filed on a calendar year basis, and there is no liability to recognize in the consolidated statements of financial position given that the expenses exceeded the income.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising

The Organization expenses advertising costs as incurred. Informational advertising, which provides the stories of men, women, and children whose lives have been changed through the ministry of TCM, is widely distributed, does not actively solicit donations, and is recorded as fundraising - education expense in the consolidated statement of functional expenses.

Note 1 - Summary of Significant Accounting Policies (Continued)

Reclassification

Certain amounts in the September 30, 2015 consolidated financial statements have been reclassified to conform to the September 30, 2016 presentation.

Recent Accounting Standards to be Adopted in the Future

In February 2016, the FASB issued ASU No. 2016-02 entitled, Leases (Topic 842), which may change the Company's statement of financial position by requiring lessees to recognize most leases as a lease liability and corresponding right-of-use asset. This may affect compliance with any contractual agreements and loan covenants. This new standard is effective for the Company for fiscal years beginning after December 15, 2019 with early adoption permitted. The provisions of this standard will be applied retrospectively. Management has not yet determined whether this new standard will have a material effect on its financial statements.

In May 2014, the FASB issued ASU No. 2014-09 entitled, Revenue from Contracts with Customers (Topic 606), which may change the Company's method of revenue recognition. The amendments in this ASU are effective for the Company for fiscal years beginning after December 15, 2018 with early adoption permitted. The provisions of this standard will be applied retrospectively. Management has not yet determined whether this new standard will have a material effect on its financial statements.

Note 2 - Promises to Give

The City Mission had outstanding unconditional pledges of $176,651 and $95,434 due in less than one year for the years ended September 30, 2016 and 2015, respectively. Management has determined all pledges to be fully collectible, and therefore, no allowance for doubtful pledges is reflected.

Note 3 - Investments

Investments are stated at fair value and consist of the following:

	2016	2015
Common stock	$ 187,140	$ 67,928
Corporate bonds	13,702	19,115
	$ 200,842	**$ 87,043**

Note 4 - Annuity and Annuity Payment Liability

The Organization receives various donations in the form of gift annuities, for which the Organization receives a beneficial interest in the donated assets (split-interest agreements). The Donor essentially receives an annuity payment for their lifetime from the invested assets. The Organization records the assets at their fair market value, with a corresponding liability for the estimated annuity pay-outs due to the donors. In addition, there is also an estimated amount recorded with contributions that represent the Organization's estimated charitable gift value at the date of the financial statements. The annuity payment liabilities are recorded at the estimated present value, and assumptions are used to derive an age factor and the discount rate, such as IRS tables for the age factor and applicable federal rate of interest (AFR) to derive the discount rate.

There were no new annuities during the year ended September 30, 2016.

Note 4 - Annuity and Annuity Payment Liability (Continued)

The AFR rates of 1.4% and 2.2% were used as the discount rates in calculating the present value of the liability as of September 30, 2016 and 2015, respectively.

Note 5 - Fair Value Disclosure and Measurement

The Organization's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with FASB ASC 820-10. See Note 1 for a discussion of the Organization's policies regarding this hierarchy.

The following fair value hierarchy tables present information about the Organization's assets and liabilities measured at fair value on a recurring basis as of September 30, 2016:

	Fair Value Measurements at Reporting Date Using			
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of 9/30/16
Annuity investments:				
Equity mutual funds	$ 93,108	$ -	$ -	$ 93,108
Income mutual funds	57,912	-	-	57,912
Subtotal	151,020	-	-	151,020
Investments:				
Corporate bonds	-	13,702	-	13,702
Mutual funds	4,369			4,369
ETFs	5,550			5,550
Common stock:				-
Basic materials	1,271	-	-	1,271
Consumer goods	12,805			12,805
Healthcare	2,294			2,294
Technology	4,330	-	-	4,330
Financial	77,509	-	-	77,509
Utilities	2,446			2,446
Industrial goods	11,083	-	-	11,083
Services	65,483	-	-	65,483
Subtotal	187,140	13,702	-	200,842
	$ 338,160	**$ 13,702**	**$ -**	**$ 351,862**

Note 6 - Fair Value Disclosure and Measurement (Continued)

The following fair value hierarchy tables present information about the Organization's assets and liabilities measured at fair value on a recurring basis as of September 30, 2015:

	Fair Value Measurements at Reporting Date Using			
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of 9/30/2015
Annuity investments:				
Equity mutual funds	$ 86,833	$ -	$ -	$ 86,833
Income mutual funds	60,552	-	-	60,552
Subtotal	147,385	-	-	147,385
Investments:				
Corporate bonds	-	19,115	-	19,115
Common stock:				
Basic materials	1,145	-	-	1,145
Consumer goods	5,440			5,440
Healthcare	2,066			2,066
Technology	1,010	-	-	1,010
Financial	3,578	-	-	3,578
Industrial goods	5,977	-	-	5,977
Services	48,712	-	-	48,712
Subtotal	67,928	19,115	-	87,043
	$ 215,313	**$ 19,115**	**$ -**	**$ 234,428**

There was neither a balance nor activity for Level 3 assets and liabilities at September 30, 2016. The following table provides a reconciliation of changes in Level 3, assets and liabilities measured at fair value for the year ended September 30, 2015:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Beginning balance	$ 16,446
Total losses (realized / unrealized) included in changes in net assets	(2,429)
Distributions of principal	(14,017)
Ending balance	**$ -**

Note 7 - Line of Credit

The Organization has a demand line of credit agreement with a commercial bank that provided borrowings up to a maximum of $500,000, at an interest rate at 1.65% over the bank's prime rate. The collateral for the current line of credit includes all assets of the Organization. The outstanding balance for the years ended September 30, 2016 and 2015 was $-0- .

Note 8 - Defined Contribution Plan

The Organization sponsors a defined contribution retirement plan under Section 403(b) of the IRC, which covers full-time employees with three months or more of service, with matching contributions beginning after six months of service. Eligible participants may make contributions to the maximum allowed by the IRC. During the years ending September 30, 2016 and 2015, the Organization made discretionary matching contributions equal to 100% of the first 4% of the salary contributions of eligible participants. Total contributions for the years ended September 30, 2016 and 2015 were $61,000 and $53,432, respectively.

Note 9 - Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 10 - Property and Equipment

Major classifications of property and equipment, their respective costs, and depreciable lives are summarized below:

	2016	2015	Depreciable Lives
Land	$ 1,607,029	$ 1,607,029	N/A
Land improvements	281,131	281,131	2 - 20 years
Buildings	12,742,782	12,742,782	5 - 40 years
Building improvements	1,222,545	1,143,035	5 - 40 years
Furniture and equipment	1,628,869	1,445,991	3 - 10 years
Vehicles	175,511	170,227	3 - 5 years
Total at cost	17,657,867	17,390,195	
Less: accumulated depreciation	(8,042,521)	(7,449,955)	
Net property and equipment	**$ 9,615,346**	**$ 9,940,240**	

Depreciation expense for September 30, 2016 and 2015 was $592,567 and $573,071, respectively.

Note 11 - Donated Materials and Services

During the year ended September 30, 2016, The City Mission received donated materials of $223,415 and donated services of $-0-. The estimated value of volunteer efforts that did not require specialized skills was $366,250.

During the year ended September 30, 2015, The City Mission received donated materials of $151,462 and donated services of $10,194. The estimated value of volunteer efforts that did not require specialized skills was $226,828.

Note 12 - Subsequent Events

The Organization has evaluated subsequent events from the statements of financial position date through May 23, 2018.

THE CITY MISSION AND AFFILIATES

Consolidating Statement of Financial Position

September 30, 2016

	TCM	MRA	TCMSF	NHP	Eliminations	Consolidated Total
ASSETS						
Current						
Cash and cash equivalents	$ 627,703	$ 64,859	$ -	$ 223	$ -	$ 692,785
Accounts receivable	166,667	1,063,849	-	-	(386,884)	843,632
Promises to give	176,651	-	-	-	-	176,651
Intercompany receivable	553,980	-	-	-	(553,980)	-
Investments	200,842	-	-	-	-	200,842
Investments in affiliates	-	-	2,000	-	(2,000)	-
Prepaid expenses	34,591	6,114	-	385	-	41,090
Total current assets	1,760,434	1,134,822	2,000	608	(942,864)	1,955,000
Property and Equipment, Net	9,615,346	-	-	-	-	9,615,346
Other						
Annuity	151,020	-	-	-	-	151,020
Total Assets	**$ 11,526,800**	**$ 1,134,822**	**$ 2,000**	**$ 608**	**$ (942,864)**	**$ 11,721,366**

THE CITY MISSION AND AFFILIATES

Consolidating Statement of Financial Position

September 30, 2016

	TCM	MRA	TCMSF	NHP	Eliminations	Consolidated Total
LIABILITIES						
Current						
Accounts payable	$ 434,053	$ 1,047,525	$ -	$ -	$ (220,217)	$ 1,261,361
Accrued vacation	125,352	-	-	-	-	125,352
Accrued expenses	-	166,667	-	-	(166,667)	-
Accrued payroll	18,000	-	-	-	-	18,000
Annuity payment liability	56,483	-	-	-	-	56,483
Intercompany payable	-	533,867	19,245	868	(553,980)	-
Total current liabilites/ total liabilities	633,888	1,748,059	19,245	868	(940,864)	1,461,196
NET ASSETS						
Unrestricted	10,853,612	(613,237)	(17,245)	(260)	(2,000)	10,220,870
Temporarily restricted	38,300	-	-	-	-	38,300
Permanently restricted	1,000	-	-	-	-	1,000
	10,892,912	(613,237)	(17,245)	(260)	(2,000)	10,260,170
Total Liabilities and Net Assets	**$ 11,526,800**	**$ 1,134,822**	**$ 2,000**	**$ 608**	**$ (942,864)**	**$ 11,721,366**

THE CITY MISSION AND AFFILIATES

Consolidating Statement of Activities and Change in Net Assets

For the Year Ended September 30, 2016

	TCM	MRA	TCMSF	NHP	Eliminations	Consolidated Total
Unrestricted Net Assets						
Support and Revenues						
Contributions	$ 6,442,669	$ -	$ 2,108	$ -	$ -	$ 6,444,777
Contributions- donated marketable securities	101,075	-	-	-	-	101,075
Contributions- donated materials and services	223,415	-	-	-	-	223,415
Interest and dividend income	17,030	-	-	-	-	17,030
Realized and unrealized gains on investments	26,717	-	-	-	-	26,717
Shared services income	250,000	-	-	-	(250,000)	-
Other income	179,370	-	-	-	-	179,370
Special events	113,830	-	-	-	-	113,830
	7,354,106	-	2,108		(250,000)	7,106,214
For profit revenue:						
MRA revenue	-	5,696,147	-	-	(685,048)	5,011,099
Total support and revenues	7,354,106	5,696,147	2,108	-	(935,048)	12,117,313
Functional Expenses						
Program expenses	6,210,793	-	-	-	(610,564)	5,600,229
Development	445,069	-	-	-	-	445,069
Administrative expenses	397,014	-	-	-	(74,484)	322,530
Total functional expenses	7,052,876	-	-	-	(685,048)	6,367,828
Other Expenses						
TCMSF expenses	-	-	4,295	1,260	-	5,555
For profit expenses:						
MRA expenses	-	6,135,933	-	-	(250,000)	5,885,933
	-	6,135,933	4,295	1,260	(250,000)	5,891,488
Increase (Decrease) in Net Assets	301,230	(439,786)	(2,187)	(1,260)	-	(142,003)
Net Assets (Deficit) - Beginning of Year	10,591,682	(174,451)	(15,058)	-	-	10,402,173
Member contributions	-	1,000	-	1,000	(2,000)	-
Net Assets (Deficit) - End of Year	**$ 10,892,912**	**$ (613,237)**	**$ (17,245)**	**$ (260)**	**$ (2,000)**	**$ 10,260,170**