

THE CITY MISSION AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017



Waltham Rea

www.reacpa.com

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INDEPENDENT AUDITORS' REPORT

March 4, 2019

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 statements of financial position as of September 30, 2018 and 2017, and the related consolidated statements of activities and change in net assets, cash flows, and functional expenses 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.

Auditors' 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 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, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the 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 audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Rea & Associates, Inc.

Certified Public Accountants

THE CITY MISSION AND AFFILIATES

Consolidated Statements of Financial Position

September 30, 2018 and 2017

ASSETS	<u>2018</u>	<u>2017</u>	LIABILITIES	<u>2018</u>	<u>2017</u>
Current			Current		
Cash and cash equivalents	\$ 755,392	\$ 371,800	Accounts payable	\$ 780,510	\$ 510,427
Accounts receivable, net	82,845	282,141	Accrued vacation	123,447	106,540
Deferred expenses	264,548	-	Accrued payroll	8,842	27,819
Promises to give	163,841	81,391	Annuity payment liability	<u>65,462</u>	<u>73,039</u>
Investments	605,075	420,288			
Prepaid expenses	<u>85,906</u>	<u>30,421</u>	Total Current Liabilities / Total Liabilities	978,261	717,825
Total Current Assets	1,957,607	1,186,041			
			NET ASSETS		
Property and Equipment, Net	8,997,057	9,241,740	Net Assets		
			Unrestricted	10,299,156	9,984,987
Other			Temporarily restricted	38,300	38,300
Property held for New Horizons Program	149,308	110,000	Permanently restricted	<u>1,000</u>	<u>1,000</u>
Annuity investments	<u>212,745</u>	<u>204,331</u>			
	<u>362,053</u>	<u>314,331</u>	Total Net Assets	<u>10,338,456</u>	<u>10,024,287</u>
Total Assets	<u><u>\$ 11,316,717</u></u>	<u><u>\$ 10,742,112</u></u>	Total Liabilities and Net Assets	<u><u>\$ 11,316,717</u></u>	<u><u>\$ 10,742,112</u></u>

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, 2018 and 2017

	2018	2017
Unrestricted Net Assets		
Support and Revenues		
Contributions	\$ 6,346,253	\$ 5,648,875
Contributions- donated marketable securities	505,605	79,951
Contributions- donated materials and services	310,316	400,674
Interest and dividend income	42,535	25,457
Realized and unrealized gains on investments	164,699	108,639
Gain on disposal of property	-	88,707
Other income	129,004	111,432
Special events	95,592	107,740
	7,594,004	6,571,475
For profit revenue:		
MRA revenue	1,682,213	3,223,935
NHP revenue	4,000	200
	9,280,217	9,795,610
Functional Expenses		
Program expenses	5,806,338	5,716,394
Development	468,072	539,625
Administrative expenses	305,492	241,642
	6,579,902	6,497,661
Other Expenses		
For profit expenses:		
MRA expenses	2,380,691	3,527,297
NHP expenses	5,455	6,535
	2,386,146	3,533,832
Increase (Decrease) in Net Assets	314,169	(235,883)
Net Assets - Beginning of Year	10,024,287	10,260,170
Net Assets - End of Year	\$ 10,338,456	\$ 10,024,287

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, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 314,169	\$ (235,883)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:		
Depreciation	587,071	608,225
Non-cash contributions	(815,921)	(480,625)
Non-cash expenses	310,316	315,674
Gift annuity contribution	-	(16,014)
Insurance proceeds on damaged property	-	(168,966)
Realized and unrealized gains on investments	(164,699)	(108,639)
Gain on disposal of property and equipment	-	(88,707)
Bad debt expense	78,317	194,420
Changes in assets and liabilities:		
Accounts receivable	120,979	367,071
Deferred obligations	(264,548)	-
Promises to give	(82,450)	(30,741)
Prepaid expenses	(55,485)	10,669
Property held for affiliates	(39,308)	-
Accounts payable	270,083	(750,934)
Accrued vacation	16,907	(18,812)
Accrued payroll	(18,977)	9,819
Total adjustments	(57,715)	(157,560)
Net Cash Provided By (Used In) Operating Activities	256,454	(393,443)
Cash Flows from Investing Activities		
Proceeds from sale of investments	644,736	288,649
Purchase of securities	(175,210)	(214,245)
Insurance proceeds on damaged property	-	168,966
Investment in home renovations	-	(25,000)
Purchase of property and equipment	(342,388)	(145,912)
Net Cash Provided By Investing Activities	127,138	72,458
Net Increase (Decrease) in Cash and Cash Equivalents	383,592	(320,985)
Cash and Cash Equivalents - Beginning	371,800	692,785
Cash and Cash Equivalents - Ending	\$ 755,392	\$ 371,800
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year:		
Interest	\$ 5,447	\$ 264
Income taxes	\$ -	\$ -
Non-cash investing and financing activities:		
Donated marketable securities	\$ 505,605	\$ 79,951
Fair market value of housing held for New Horizons program	\$ -	\$ 110,000
Donated gift annuity	\$ -	\$ 45,000

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, 2018

	Program Expenses				Total Program Expenses	Development	Administrative and General	Total Expenses
	Crossroads Men's Ministry	Inmate Outreach Services Ministry	Laura's Home	TCMSF				
Gross wages	\$ 1,124,740	\$ 157,934	\$ 1,224,491	\$ -	\$ 2,507,165	\$ 167,329	\$ 103,632	\$ 2,778,126
Payroll taxes	71,580	9,826	80,163	-	161,569	11,728	6,964	180,261
Insurance - medical	246,240	23,646	205,576	-	475,462	32,690	25,856	534,008
Pension expenses	28,075	5,837	42,382	-	76,294	4,068	4,580	84,942
Staff development	12,167	2,301	22,506	-	36,974	4,769	2,184	43,927
Recruitment and relocation expenses	13,179	3,375	22,152	-	38,706	4,800	3,189	46,695
Employee expenses	1,495,981	202,919	1,597,270	-	3,296,170	225,384	146,405	3,667,959
Food	196,811	-	145,072	-	341,884	-	-	341,884
Client programs	30,183	27,126	44,238	-	101,547	-	-	101,547
Client expenses	226,995	27,126	189,310	-	443,431	-	-	443,431
Gas	18,151	-	20,688	-	38,839	-	1,809	40,648
Electric	70,680	-	72,756	-	143,436	-	23,387	166,823
Water / sewer	38,583	-	53,166	-	91,749	-	7,568	99,317
Telephone	10,147	2,547	6,658	-	19,352	-	14,788	34,140
Utilities	137,561	2,547	153,268	-	293,376	-	47,552	340,928
Insurance - building	17,231	-	7,376	-	24,607	-	5,914	30,521
Custodial expenses	50,046	-	48,989	-	99,035	-	364	99,399
Repair & maintenance	71,287	-	82,821	788	154,896	-	10,126	165,022
Vehicle expenses	4,475	1,506	3,844	-	9,825	-	2,083	11,908
Facility & vehicle expenses	143,039	1,506	143,030	788	288,363	-	18,487	306,850
Office and postage	51,826	41,501	54,967	3,787	152,081	-	35,976	188,057
Insurance - liability	8,822	4,835	11,925	1,192	26,774	-	849	27,623
Professional services	41,096	41,096	41,096	1,000	124,288	-	41,096	165,384
Fundraising - education	345,215	92,057	483,301	-	920,573	-	-	920,573
Fundraising - development	-	-	-	88	88	230,143	-	230,231
Taxes	-	-	-	400	400	-	-	400
Total organizational expenses	446,959	179,489	591,289	6,467	1,224,204	230,143	77,921	1,532,268
Total Cash Expenses	2,450,535	413,587	2,674,167	7,255	5,545,544	455,527	290,365	6,291,436
Food	57,503	-	55,341	-	112,844	-	-	112,844
Client programs (clothing and misc.)	68,380	-	118,768	-	187,147	-	-	187,147
Professional services	2,581	2,581	2,581	-	7,743	-	2,582	10,325
Total donated goods and services expenses	128,464	2,581	176,689	-	307,734	-	2,582	310,316
Total Expenses before Depreciation	2,578,999	416,168	2,850,856	7,255	5,853,278	455,527	292,947	6,601,752
Depreciation	262,169	10,036	289,455	-	561,660	12,545	12,545	586,750
Total Functional Expenses before Intercompany Eliminations	2,841,168	426,204	3,140,311	7,255	6,414,938	468,072	305,492	7,188,502
Intercompany eliminations	-	-	-	-	(608,600)	-	-	(608,600)
Total Functional Expenses	\$ 2,841,168	\$ 426,204	\$ 3,140,311	\$ 7,255	\$ 5,806,338	\$ 468,072	\$ 305,492	\$ 6,579,902

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, 2017

	Program Expenses								
	Crossroads Men's Ministry	Mental Health Ministry	Inmate Outreach Services Ministry	Laura's Home	TCMSF	Total Program Expenses	Development	Administrative and General	Total Expenses
Gross wages	\$ 872,275	\$ 328,925	\$ 154,332	\$ 1,031,126	\$ -	\$ 2,386,658	\$ 167,318	\$ 94,599	\$ 2,648,575
Payroll taxes	59,468	23,524	9,520	71,892	-	164,404	11,626	6,392	182,422
Insurance and workers' compensation	210,350	44,218	15,735	169,915	-	440,218	30,416	17,864	488,498
Retirement plan expenses	33,126	8,533	6,500	38,928	-	87,087	5,418	4,949	97,454
Staff development	12,469	9,197	2,273	13,055	-	36,994	2,871	1,507	41,372
Recruitment and relocation expenses	5,544	1,607	1,260	7,418	-	15,829	1,321	1,039	18,189
Total employee expenses	1,193,232	416,004	189,620	1,332,334	-	3,131,190	218,970	126,350	3,476,510
Food	179,038	-	-	155,256	-	334,294	-	-	334,294
Client programs	27,361	1,139	11,629	37,881	-	78,010	-	-	78,010
Total client expenses	206,399	1,139	11,629	193,137	-	412,304	-	-	412,304
Gas	11,266	1,516	-	12,349	-	25,131	-	4,644	29,775
Electric	44,461	11,989	-	66,581	-	123,031	-	22,348	145,379
Water / sewer	33,761	1,942	-	49,943	-	85,646	-	8,113	93,759
Telephone	7,644	4,665	2,141	3,439	-	17,889	-	7,761	25,650
Total utilities	97,132	20,112	2,141	132,312	-	251,697	-	42,866	294,563
Insurance - building	9,777	4,345	-	4,345	-	18,467	-	3,259	21,726
Custodial expenses	44,551	-	-	43,908	-	88,459	-	-	88,459
Repair and maintenance	70,548	1,474	-	71,075	-	143,097	-	1,860	144,957
Vehicle expenses	3,067	1,490	1,600	4,528	-	10,685	-	1,490	12,175
Total facility and vehicle expenses	127,943	7,309	1,600	123,856	-	260,708	-	6,609	267,317
Office and postage	40,870	37,435	37,881	49,827	-	166,013	5,450	28,575	200,038
Insurance - liability	5,959	5,140	4,840	10,426	-	26,365	-	658	27,023
Professional services	26,719	26,719	26,719	26,719	-	106,876	-	26,719	133,595
Fundraising - education	425,503	121,572	121,572	547,074	-	1,215,721	-	-	1,215,721
Fundraising - development	-	-	-	-	-	-	303,931	-	303,931
Total organizational expenses	499,051	190,866	191,012	634,046	-	1,514,975	309,381	55,952	1,880,308
Total Cash Expenses	2,123,757	635,430	396,002	2,415,685	-	5,570,874	528,351	231,777	6,331,002
Food	56,797	-	-	42,517	-	99,314	-	-	99,314
Client programs (clothing and misc.)	83,058	-	-	83,302	50,000	216,360	-	-	216,360
Total donated goods and services expenses	139,855	-	-	125,819	50,000	315,674	-	-	315,674
Total Expenses before Depreciation	2,263,612	635,430	396,002	2,541,504	50,000	5,886,548	528,351	231,777	6,646,676
Depreciation	256,513	11,979	11,979	306,615	-	587,086	11,274	9,865	608,225
Total Functional Expenses before Intercompany Eliminations	2,520,125	647,409	407,981	2,848,119	50,000	6,473,634	539,625	241,642	7,254,901
Intercompany eliminations	-	-	-	-	-	(757,240)	-	-	(757,240)
Total Functional Expenses	\$ 2,520,125	\$ 647,409	\$ 407,981	\$ 2,848,119	\$ 50,000	\$ 5,716,394	\$ 539,625	\$ 241,642	\$ 6,497,661

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

THE CITY MISSION AND AFFILIATES

Notes to the Consolidated Financial Statements

For the Years Ended September 30, 2018 and 2017

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; 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 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 activity between the Cuyahoga County Land Reutilization Corp, NHP, and TCM, and is 100% owned by TCMSF and is a for-profit entity. The collaborative activity 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, 2018 and 2017. 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, 2018 and 2017.

Fair Value Measurement - Definition and Hierarchy

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 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, 2018 and 2017.

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Doubtful Accounts

Promises to give and accounts receivable 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. This valuation allowance related to accounts receivable totaled \$-0- and \$50,000 for the years ended September 30, 2018 and 2017, respectively.

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.

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.

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 4).

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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 and NHP as these activities are subject to unrelated business income taxes. 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.

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 1 - Summary of Significant Accounting Policies (Continued)

Recent Accounting Standards to be Adopted in the Future (Continued)

In August 2016, the FASB issued ASU No. 2016-14 entitled, Presentation of Financial Statements of Not-for-Profit Entities. The update was issued to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The effective date is for fiscal years beginning after December 15, 2017, and is to be applied retrospectively. Management has not yet determined whether the new standard will have a material effect on its consolidated financial statements.

Note 2 - Promises to Give

The City Mission had outstanding unconditional pledges of \$163,841 and \$81,391 due in less than one year for the years ended September 30, 2018 and 2017, 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:

	<u>2018</u>	<u>2017</u>
Common stock	\$ 416,634	\$ 411,924
Corporate bonds	5,044	8,364
Commodities	4,066	-
Mutual funds	<u>179,331</u>	<u>-</u>
	<u>\$ 605,075</u>	<u>\$ 420,288</u>

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.

One annuity expired and one new annuity was gifted during the year ended September 30, 2017.

The AFR rates of 3.4% and 2.4% were used as the discount rates in calculating the present value of the liability as of September 30, 2018 and 2017, 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, 2018:

Description	Fair Value Measurements at Reporting Date Using			Balance as of 9/30/2018
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Annuity investments:				
Equity mutual funds	\$ 154,043	\$ -	\$ -	\$ 154,043
Income mutual funds	58,702	-	-	58,702
Subtotal	212,745	-	-	212,745
Investments:				
Corporate bonds	-	5,044	-	5,044
Commodities	4,066			4,066
Mutual funds	185,737			185,737
Common stock:				
Basic materials	1,322	-	-	1,322
Healthcare	1,225			1,225
Technology	203,620	-	-	203,620
Financial	176,866	-	-	176,866
Utilities	3,350			3,350
Media	2,071			2,071
Industrial goods	21,774	-	-	21,774
Subtotal	600,031	5,044	-	605,075
	\$ 812,776	\$ 5,044	\$ -	\$ 817,820

Note 5 - 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, 2017:

Description	Fair Value Measurements at Reporting Date Using			Balance as of 9/30/2017
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Annuity investments:				
Equity mutual funds	\$ 141,307	\$ -	\$ -	\$ 141,307
Income mutual funds	63,024	-	-	63,024
Subtotal	204,331	-	-	204,331
Investments:				
Corporate bonds	-	8,364	-	8,364
Mutual funds	5,236	-	-	5,236
ETFs	7,656	-	-	7,656
Common stock:				
Basic materials	1,199	-	-	1,199
Consumer goods	2,620	-	-	2,620
Healthcare	2,461	-	-	2,461
Technology	161,063	-	-	161,063
Financial	150,758	-	-	150,758
Utilities	2,931	-	-	2,931
Industrial goods	16,805	-	-	16,805
Services	61,195	-	-	61,195
Subtotal	411,924	8,364	-	420,288
	\$ 616,255	\$ 8,364	\$ -	\$ 624,619

Note 6 - 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, 2018 and 2017 was \$-0-. Effective December 13, 2018, the line of credit has been extended until January 2, 2020. Interest paid on the line of credit amounted to \$5,447 and \$264 for the years ended September 30, 2018 and 2017, respectively.

Note 7 - 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, 2018 and 2017, 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, 2018 and 2017 were \$61,457 and \$62,670, respectively.

Note 8 - 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 9 - Property and Equipment

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

	<u>2018</u>	<u>2017</u>	Depreciable Lives
Land	\$ 1,607,029	\$ 1,607,029	N/A
Land improvements	287,984	287,984	2 - 20 years
Buildings	12,742,782	12,742,782	5 - 40 years
Building improvements	1,554,716	1,355,816	5 - 40 years
Furniture and equipment	1,811,094	1,670,498	3 - 10 years
Vehicles	169,883	175,167	3 - 5 years
Computer hardware	<u>2,892</u>	<u>-</u>	3 years
Total at cost	18,176,380	17,839,276	
Less: accumulated depreciation	<u>(9,179,323)</u>	<u>(8,597,536)</u>	
Net property and equipment	<u>\$ 8,997,057</u>	<u>\$ 9,241,740</u>	

Depreciation expense for September 30, 2018 and 2017 was \$587,071 and \$608,225, respectively.

Note 10 - Donated Materials and Services

During the year ended September 30, 2018, The City Mission received donated materials of \$299,991 and donated services of \$10,325. The estimated value of volunteer efforts that did not require specialized skills was \$555,426.

During the year ended September 30, 2017, The City Mission received donated materials of \$265,676 and donated services of \$-0-. The estimated value of volunteer efforts that did not require specialized skills was \$501,879. The City Mission Support Foundation received donated materials of \$134,998 during the year ended September 30, 2017.

Note 11 - Subsequent Events

The Organization has evaluated subsequent events from the statements of financial position date through March 4, 2019. The material assets of MRA are to be sold effective April 1, 2019. There will be no material financial impact on the Organization.

THE CITY MISSION AND AFFILIATES

Consolidating Statement of Financial Position

September 30, 2018

ASSETS	TCM	MRA	TCMSF	NHP	Eliminations	Consolidated Total
Current						
Cash and cash equivalents	\$ 383,050	\$ 365,213	\$ 6,512	\$ 617	\$ -	\$ 755,392
Accounts receivable, net	468,825	153,202	-	-	(539,182)	82,845
Deferred expenses	-	264,548	-	-	-	264,548
Promises to give	163,841	-	-	-	-	163,841
Intercompany receivables	555,594	-	128,558	-	(684,152)	-
Investments	605,075	-	-	-	-	605,075
Investments in affiliates	-	-	5,000	-	(5,000)	-
Prepaid expenses	79,726	3,126	1,839	1,215	-	85,906
Total current assets	2,256,111	786,089	141,909	1,832	(1,228,334)	1,957,607
Property and Equipment, Net	8,994,486	2,571	-	-	-	8,997,057
Other						
Property held for New Horizon Program	-	-	-	149,308	-	149,308
Annuity investments	212,745	-	-	-	-	212,745
Total Assets	\$ 11,463,342	\$ 788,660	\$ 141,909	\$ 151,140	\$ (1,228,334)	\$ 11,316,717

THE CITY MISSION AND AFFILIATES

Consolidating Statement of Financial Position (Continued)

September 30, 2018

	<u>TCM</u>	<u>MRA</u>	<u>TCMSF</u>	<u>NHP</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
LIABILITIES						
Current						
Accounts payable	\$ 309,757	\$ 551,587	\$ -	\$ 15	\$ (80,849)	\$ 780,510
Accrued vacation	123,447	-	-	-	-	123,447
Accrued expenses	-	458,333	-	-	(458,333)	-
Accrued payroll	8,842	-	-	-	-	8,842
Annuity payment liability	65,462	-	-	-	-	65,462
Intercompany payable	-	527,977	-	156,175	(684,152)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities/ total liabilities	507,508	1,537,897	-	156,190	(1,223,334)	978,261
NET ASSETS						
Unrestricted	10,916,534	(749,237)	141,909	(5,050)	(5,000)	10,299,156
Temporarily restricted	38,300	-	-	-	-	38,300
Permanently restricted	1,000	-	-	-	-	1,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	10,955,834	(749,237)	141,909	(5,050)	(5,000)	10,338,456
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 11,463,342	\$ 788,660	\$ 141,909	\$ 151,140	\$ (1,228,334)	\$ 11,316,717

THE CITY MISSION AND AFFILIATES

Consolidating Statement of Activities and Change in Net Assets

For the Year Ended September 30, 2018

	<u>TCM</u>	<u>MRA</u>	<u>TCMSF</u>	<u>NHP</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Unrestricted Net Assets						
Support and Revenues						
Contributions	\$ 6,295,324	\$ -	\$ 50,929	\$ -	\$ -	\$ 6,346,253
Contributions- donated marketable securities	505,605	-	-	-	-	505,605
Contributions- donated materials and services	310,316	-	-	-	-	310,316
Interest and dividend income	42,535	-	-	-	-	42,535
Realized and unrealized gains on investments	164,699	-	-	-	-	164,699
Shared services income	250,000	-	-	-	(250,000)	-
Other income	129,004	-	-	-	-	129,004
Special events	95,592	-	-	-	-	95,592
	<u>7,793,075</u>	<u>-</u>	<u>50,929</u>	<u>-</u>	<u>(250,000)</u>	<u>7,594,004</u>
For profit revenue:						
MRA revenue	-	2,290,813	-	-	(608,600)	1,682,213
NHP revenue	-	-	-	4,000	-	4,000
Total support and revenues	<u>7,793,075</u>	<u>2,290,813</u>	<u>50,929</u>	<u>4,000</u>	<u>(858,600)</u>	<u>9,280,217</u>
Functional Expenses						
Program expenses	6,407,683	-	7,255	-	(608,600)	5,806,338
Development	468,072	-	-	-	-	468,072
Administrative expenses	305,492	-	-	-	-	305,492
Total functional expenses	<u>7,181,247</u>	<u>-</u>	<u>7,255</u>	<u>-</u>	<u>(608,600)</u>	<u>6,579,902</u>
Other Expenses						
For profit expenses:						
MRA expenses	-	2,630,691	-	-	(250,000)	2,380,691
NHP expenses	-	-	-	5,455	-	5,455
	<u>-</u>	<u>2,630,691</u>	<u>-</u>	<u>5,455</u>	<u>(250,000)</u>	<u>2,386,146</u>
Increase (Decrease) in Net Assets	<u>611,828</u>	<u>(339,878)</u>	<u>43,674</u>	<u>(1,455)</u>	<u>-</u>	<u>314,169</u>
Net Assets (Deficit) - Beginning of Year	<u>10,344,006</u>	<u>(409,359)</u>	<u>98,235</u>	<u>(3,595)</u>	<u>(5,000)</u>	<u>10,024,287</u>
Net Assets (Deficit) - End of Year	<u>\$ 10,955,834</u>	<u>\$ (749,237)</u>	<u>\$ 141,909</u>	<u>\$ (5,050)</u>	<u>\$ (5,000)</u>	<u>\$ 10,338,456</u>