

THE CITY MISSION AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018



Rea & associates

www.reacpa.com

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INDEPENDENT AUDITORS' REPORT

December 19, 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018

ASSETS		<u>2019</u>	<u>2018</u>	LIABILITIES		<u>2019</u>	<u>2018</u>
Current				Current			
Cash and cash equivalents	\$	1,280,054	\$ 755,392	Accounts payable	\$	129,150	\$ 780,510
Accounts receivable, net		7,843	82,845	Accrued vacation		143,389	123,447
Deferred expenses		-	264,548	Accrued expenses		46,272	-
Promises to give		222,178	163,841	Accrued payroll		18,038	8,842
Investments		1,290,278	605,075	Annuity payment liability		<u>66,465</u>	<u>65,462</u>
Prepaid expenses		<u>428,868</u>	<u>85,906</u>				
				Total Current Liabilities / Total Liabilities		403,314	978,261
Total Current Assets		3,229,221	1,957,607				
Property and Equipment, Net		8,784,256	8,997,057				
				NET ASSETS			
Other				Net Assets			
Promises to give - long term		100,000	-	Without donor restrictions		11,588,672	10,299,156
Property held for New Horizons Program		147,380	149,308	With donor restrictions		<u>476,340</u>	<u>39,300</u>
Annuity investments		<u>207,469</u>	<u>212,745</u>				
		<u>454,849</u>	<u>362,053</u>	Total Net Assets		<u>12,065,012</u>	<u>10,338,456</u>
Total Assets		<u><u>\$ 12,468,326</u></u>	<u><u>\$ 11,316,717</u></u>	Total Liabilities and Net Assets		<u><u>\$ 12,468,326</u></u>	<u><u>\$ 11,316,717</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, 2019 and 2018

	2019			2018		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Consolidated Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Consolidated Total
Support and Revenues						
Contributions	\$ 7,675,316	\$ 293,728	\$ 7,969,044	\$ 6,346,253	\$ -	\$ 6,346,253
Contributions- donated marketable securities	289,714	-	289,714	505,605	-	505,605
Contributions- donated materials and services	389,968	-	389,968	310,316	-	310,316
Interest and dividend income	19,209	-	19,209	42,535	-	42,535
Realized and unrealized gain (loss) on investments	(46,380)	-	(46,380)	164,699	-	164,699
Other income	159,161	-	159,161	129,004	-	129,004
Special events	131,726	-	131,726	95,592	-	95,592
	<u>8,618,714</u>	<u>293,728</u>	<u>8,912,442</u>	<u>7,594,004</u>	<u>-</u>	<u>7,594,004</u>
For profit revenue:						
MRA revenue	-	-	-	1,682,213	-	1,682,213
NHP revenue	39,697	-	39,697	4,000	-	4,000
Total support and revenues before capital campaign	<u>8,658,411</u>	<u>293,728</u>	<u>8,952,139</u>	<u>9,280,217</u>	<u>-</u>	<u>9,280,217</u>
Functional Expenses						
Program expenses	6,273,987	-	6,273,987	5,806,338	-	5,806,338
Development	484,852	-	484,852	468,072	-	468,072
Administrative expenses	420,406	-	420,406	305,492	-	305,492
Total functional expenses	<u>7,179,245</u>	<u>-</u>	<u>7,179,245</u>	<u>6,579,902</u>	<u>-</u>	<u>6,579,902</u>
Other Expenses						
For profit expenses:						
MRA expenses	-	-	-	2,380,691	-	2,380,691
NHP expenses	25,251	-	25,251	5,455	-	5,455
Total expenses before capital campaign	<u>7,204,496</u>	<u>-</u>	<u>7,204,496</u>	<u>8,966,048</u>	<u>-</u>	<u>8,966,048</u>
Change in Net Assets before Capital Campaign	<u>1,453,915</u>	<u>293,728</u>	<u>1,747,643</u>	<u>314,169</u>	<u>-</u>	<u>314,169</u>
Capital Campaign						
With donor restrictions support and revenues	-	343,610	343,610	-	-	-
Net assets released from restrictions	200,298	(200,298)	-	-	-	-
Total capital campaign	<u>200,298</u>	<u>143,312</u>	<u>343,610</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase in Net Assets from Continuing Operations	<u>1,654,213</u>	<u>437,040</u>	<u>2,091,253</u>	<u>314,169</u>	<u>-</u>	<u>314,169</u>
Discontinued Operations:						
MRA revenues	952,203	-	952,203	-	-	-
MRA expenses	(1,316,900)	-	(1,316,900)	-	-	-
Decrease in Net Assets from Discontinued Operations	<u>(364,697)</u>	<u>-</u>	<u>(364,697)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase in Net Assets	<u>1,289,516</u>	<u>437,040</u>	<u>1,726,556</u>	<u>314,169</u>	<u>-</u>	<u>314,169</u>
Net Assets - Beginning of Year	<u>10,299,156</u>	<u>39,300</u>	<u>10,338,456</u>	<u>9,984,987</u>	<u>39,300</u>	<u>10,024,287</u>
Net Assets - End of Year	<u>\$ 11,588,672</u>	<u>\$ 476,340</u>	<u>\$ 12,065,012</u>	<u>\$ 10,299,156</u>	<u>\$ 39,300</u>	<u>\$ 10,338,456</u>

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, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Increase in net assets	\$ 1,726,556	\$ 314,169
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	592,782	587,071
Non-cash contributions	(679,682)	(815,921)
Non-cash expenses	389,968	310,316
Realized and unrealized (gain) loss on investments	20,550	(164,699)
Loss on disposal of property and equipment	6,130	-
Bad debt expense	78,792	78,317
Changes in assets and liabilities:		
Accounts receivable	75,002	120,979
Deferred obligations	264,548	(264,548)
Promises to give	(237,129)	(82,450)
Prepaid expenses	(342,962)	(55,485)
Property held for affiliates	1,928	(39,308)
Accounts payable	(651,360)	270,083
Accrued vacation	19,942	16,907
Accrued expense	46,272	-
Accrued payroll	9,196	(18,977)
Total adjustments	(406,023)	(57,715)
Net Cash Provided By Operating Activities	1,320,533	256,454
Cash Flows from Investing Activities		
Proceeds from sale of investments	481,688	644,736
Purchase of securities	(891,448)	(175,210)
Purchase of property and equipment	(386,111)	(342,388)
Net Cash Provided by (Used In) Investing Activities	(795,871)	127,138
Net Increase in Cash and Cash Equivalents	524,662	383,592
Cash and Cash Equivalents - Beginning	755,392	371,800
Cash and Cash Equivalents - Ending	\$ 1,280,054	\$ 755,392
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year:		
Interest	\$ -	\$ 5,447
Income taxes	\$ -	\$ -
Non-cash investing and financing activities:		
Donated marketable securities	\$ 289,714	\$ 505,605

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, 2019

	Program Expenses							Administrative and General	Total Expenses
	Crossroads	Inmate Outreach Services	Laura's Home	TCMSF	Total Program Expenses	Development			
	Men's Ministry	Ministry							
Gross wages	\$ 1,208,605	\$ 96,074	\$ 1,384,148	\$ -	\$ 2,688,827	\$ 211,588	\$ 122,424	\$ 3,022,839	
Payroll taxes	77,476	5,651	90,717	-	173,844	14,511	7,846	196,201	
Insurance- medical	259,669	13,318	307,935	-	580,922	43,957	30,716	655,595	
Pension expense	33,945	3,546	45,940	-	83,431	5,851	4,743	94,025	
Staff development	18,636	1,215	26,083	-	45,934	4,584	2,494	53,012	
Recruitment and relocation expenses	2,892	249	6,310	-	9,451	1,680	766	11,897	
Total employee expenses	1,601,223	120,053	1,861,133	-	3,582,409	282,171	168,989	4,033,569	
Food	188,909	-	154,787	-	343,696	-	-	343,696	
Client programs	27,106	14,817	50,097	50,000	142,020	-	-	142,020	
Total client expenses	216,015	14,817	204,884	50,000	485,716	-	-	485,716	
Gas	20,885	-	14,025	-	34,910	-	5,060	39,970	
Electric	73,034	-	78,820	-	151,854	-	23,391	175,245	
Water / sewer	51,355	-	50,869	-	102,224	-	6,318	108,542	
Telephone	15,293	1,038	12,081	-	28,412	-	16,746	45,158	
Total utilities	160,567	1,038	155,795	-	317,400	-	51,515	368,915	
Insurance - building	12,023	-	10,512	-	22,535	-	3,745	26,280	
Custodial expenses	48,093	-	50,506	-	98,599	-	-	98,599	
Repair and maintenance	87,794	-	95,198	656	183,648	-	9,815	193,463	
Vehicle expenses	6,956	1,041	4,964	-	12,961	-	3,643	16,604	
Total facility and vehicle expenses	154,866	1,041	161,180	656	317,743	-	17,203	334,946	
Office and postage	107,194	36,995	113,471	1,768	259,428	2,320	72,607	334,355	
Insurance - liability	14,427	1,247	14,427	4,515	34,616	-	1,233	35,849	
Professional services	258	103	259	13,702	14,322	-	206	14,528	
Fundraising - education	295,803	36,975	406,729	-	739,507	-	-	739,507	
Fundraising - development	-	-	-	-	-	184,877	-	184,877	
Uncollectible promises	-	-	-	-	-	-	722,054	722,054	
Other	2,046	2,988	2,478	-	7,512	-	5,977	13,489	
Taxes	-	-	-	-	-	-	-	-	
Total organizational expenses	419,728	78,308	537,364	19,985	1,055,385	187,197	802,077	2,044,659	
Total Cash Expenses	2,552,399	215,257	2,920,356	70,641	5,758,653	469,368	1,039,784	7,267,805	
Food	68,252	-	63,002	-	131,254	-	-	131,254	
Client programs (clothing and misc.)	201,193	-	45,971	-	247,164	-	-	247,164	
Professional services	-	-	-	-	-	-	8,400	8,400	
Total donated goods and services expenses	269,445	-	108,973	-	378,418	-	8,400	386,818	
Total Expenses before Depreciation	2,821,844	215,257	3,029,329	70,641	6,137,071	469,368	1,048,184	7,654,623	
Depreciation	277,104	6,194	273,166	-	556,464	15,484	15,484	587,432	
Total Functional Expenses before Intercompany Eliminations	3,098,948	221,451	3,302,495	70,641	6,693,535	484,852	1,063,668	8,242,055	
Intercompany eliminations	-	-	-	-	(419,548)	-	(643,262)	(1,062,810)	
Total Functional Expenses	\$ 3,098,948	\$ 221,451	\$ 3,302,495	\$ 70,641	\$ 6,273,987	\$ 484,852	\$ 420,406	\$ 7,179,245	

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							
	Crossroads	Inmate Outreach	Laura's Home	TCMSF	Total	Development	Administrative and	Total Expenses
	Men's Ministry	Services Ministry			Program Expenses		General	
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 expense	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
Total 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	-	341,883	-	-	341,883
Client programs	30,183	27,126	44,238	-	101,547	-	-	101,547
Total client expenses	226,994	27,126	189,310	-	443,430	-	-	443,430
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
Total 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 and 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
Total facility and 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	2,450,534	413,587	2,674,167	7,255	5,545,543	455,527	290,365	6,291,435
Food	57,503	-	55,341	-	112,844	-	-	112,844
Client programs (clothing and misc.)	68,380	-	118,768	-	187,148	-	-	187,148
Professional services	2,581	2,581	2,581	-	7,743	-	2,582	10,325
Total donated goods and services expenses	128,464	2,581	176,690	-	307,735	-	2,582	310,317
Total Expenses before Depreciation	2,578,998	416,168	2,850,857	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	2,841,167	426,204	3,140,312	7,255	6,414,938	468,072	305,492	7,188,502
Intercompany eliminations	-	-	-	-	(608,600)	-	-	(608,600)
Total Functional Expenses	\$ 2,841,167	\$ 426,204	\$ 3,140,312	\$ 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

Notes to the Consolidated Financial Statements

For the Years Ended September 30, 2019 and 2018

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 (discontinued March 2019); 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.

Effective February 1, 2019, the assets of Mission Resource Alliance, LLC were sold to a third party (see Note 14).

Intercompany balances have been eliminated in the consolidated financial statements.

Accounting Method

The financial statements have been prepared on the accrual basis. This summary of significant accounting policies is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles, and have been consistently applied in the preparation of the financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounting Pronouncement Adopted

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). The ASU amends the previous reporting model for not-for-profit organizations and enhances their required disclosures. The major changes relevant to the Organization include; (a) requiring the presentation of only two classes of net assets; net assets without donor restrictions and net assets with donor restrictions, (b) requiring that all not-for-profit organizations present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (d) presenting investment return net of external and internal investment expenses, and (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of not-for-profit financial statements. The Organization has adopted this ASU as of and for the year ended September 30, 2019, and it has been applied retrospectively.

Basis of Presentation

The Organization has adopted the provision of FASB ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities (Topic 958). Under this provision, the Organization is required to report information regarding its financial position and activities according to two classes of net assets; net assets without donor restrictions and net assets with donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets without donor restrictions are available for use at the discretion of the Board of Trustees (the Board) and / or management for general operating purposes. The Board may designate a portion of these net assets for specific purposes which makes them unavailable for use at management’s discretion.

Net Assets with Donor Restrictions – Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and / or purpose restrictions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all 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. The Organization places its cash and cash equivalents with high-credit quality institutions. At times, balances may exceed Federal Deposit Insurance Corporation insurance limits.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

Contributions

The Organization reports contributions in accordance with FASB ASC 958-605. Contributions are recognized when a donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by a donor are reported as an increase in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions through a release of restriction.

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. 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, 2019 and 2018.

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- for the years ended September 30, 2019 and 2018, respectively.

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 without donor restrictions 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.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. 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.

Reclassification

Certain amounts in the September 30, 2018 financial statements have been reclassified to conform to the September 30, 2019 presentation.

Note 2 - Promises to Give

The Organization recognizes contributions as revenue in the period in which the pledge (promise to give) is received.

	<u>2019</u>	<u>2018</u>
Current pledges receivable	\$ 222,178	\$ 163,841
Long-term pledges receivable (1-5 years)	<u>100,000</u>	<u>-</u>
Total pledges	<u>\$ 322,178</u>	<u>\$ 163,841</u>

Current pledges receivable represent a collection period of less than one year, while long-term pledges receivable represent a collection period between one and five years. Bad debt expense for promises to give for the years ended September 30, 2019 and 2018 was \$78,792 and \$-0-, 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>2019</u>	<u>2018</u>
Corporate bonds	\$ 1,290,278	\$ 5,044
Common stocks	-	416,634
Commodities	-	4,066
Mutual funds	-	179,331
	<u><u>\$ 1,290,278</u></u>	<u><u>\$ 605,075</u></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.

The AFR rates of 2.2% and 3.4% were used as the discount rates in calculating the present value of the liability as of September 30, 2019 and 2018, 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, 2019:

Description	<u>Fair Value Measurements at Reporting Date Using</u>			Balance as of 9/30/2019
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Annuity investments:				
Equity mutual funds	\$ 126,163	\$ -	\$ -	\$ 126,163
Income mutual funds	81,306	-	-	81,306
Subtotal	<u>207,469</u>	-	-	<u>207,469</u>
Investments:				
Corporate bonds	-	1,290,278	-	1,290,278
	<u><u>\$ 207,469</u></u>	<u><u>\$ 1,290,278</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,497,747</u></u>

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, 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 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, 2019 and 2018 was \$-0-, respectively. Effective September 13, 2019, the line of credit has been extended until January 2, 2021. Interest on the line of credit amounted to \$-0- and \$5,447 for the years ended September 30, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018 were \$70,539 and \$61,457, 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:

	2019	2018	Depreciable Lives
Land	\$ 1,607,029	\$ 1,607,029	N/A
Land improvements	246,056	287,984	2 - 20 years
Buildings	12,655,461	12,742,782	5 - 40 years
Building improvements	1,591,119	1,554,716	5 - 40 years
Furniture and equipment	834,818	1,811,094	3 - 10 years
Vehicles	126,541	169,883	3 - 5 years
Computer hardware	-	2,892	3 years
Construction in process	200,298	-	
Total at cost	17,261,322	18,176,380	
Less: accumulated depreciation	(8,477,066)	(9,179,323)	
Net property and equipment	<u>\$ 8,784,256</u>	<u>\$ 8,997,057</u>	

Depreciation expense for September 30, 2019 and 2018 was \$592,782 and \$587,071, respectively.

Note 10 - Donated Materials and Services

During the year ended September 30, 2019, The City Mission received donated materials of \$381,568 and donated services of \$8,400. The estimated value of volunteer efforts that did not require specialized skills was \$591,521.

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.

Note 11 - Net Assets with Donor Restrictions

Net assets with donor restrictions are summarized as follows:

	2019	2018
Capital campaign	\$ 143,312	\$ -
Other	333,028	39,300
	<u>\$ 476,340</u>	<u>\$ 39,300</u>

Net assets with donor restrictions were released by incurring expenses which satisfied the restricted purposes, or by occurrence of other events specified by donors during year.

Note 12 – Liquidity and Funds Available

The following reflects the Organization’s financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of September 30, 2019 because of contractually imposed or internal designations. Amounts not available include amounts set aside by the Board for growth and sustainability of the Organization that could be drawn upon if the Board approves the action. The Organization’s financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2019</u>	<u>2018</u>
Cash	\$ 1,280,054	\$ 755,392
Receivables, net	7,843	82,845
Promises to give	322,178	163,841
Investments	<u>1,290,278</u>	<u>605,075</u>
Financial assets, at year-end	2,900,353	1,607,153
Less amounts not available to be used within one year:		
Promises to give	<u>100,000</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year:	<u>\$ 2,800,353</u>	<u>\$ 1,607,153</u>

Note 13 – Capital Campaign

The Organization is in the silent phase of a capital campaign to raise money to build a new campus to serve women and children in crisis and to add safe and affordable housing options to our city’s landscape. Capital campaign contributions amounted to \$343,610 and \$-0- during the years ended September 30, 2019 and 2018, respectively. The contributions are recorded as net assets with donor restrictions and are released from restriction when the funds are spent and related assets are placed in service.

There are no outstanding pledges which relate to the capital campaign.

Note 14 – Discontinued Operations

During 2019, the Organization initiated and committed to selling the designated operating assets of Mission Resource Alliance LLC (MRA). The sale was effective February 1, 2019. In consideration of the transfer of the assets of MRA, for a two year period MRA will receive a ten percent (10%) royalty of gross total billings (less postage) for the retained MRA clients and MRA will receive a seven and one / half (7.5%) royalty of gross total billings (less postage) for all donor acquisitions campaigns for the retained MRA clients. Lastly, the buyer shall provide The City Mission and affiliates with favorable pricing on its fundraising and donor acquisition campaign at a rate similar to the prices previously paid to MRA. Accordingly, the amounts in the consolidated financial statements and related notes reflect discontinued operations accounting.

Note 14 – Discontinued Operations (Continued)

The operating results of MRA has been included in discontinued operations in the consolidated statement of activities and changes in net assets, net of eliminations, as follows:

Revenue	\$ 952,203
Expenses	<u>(1,316,900)</u>
Net decrease from discontinued operations	<u>\$ (364,697)</u>

Note 15 – Subsequent Events

The Organization has evaluated subsequent events from the statement of financial position date through December 19, 2019.

THE CITY MISSION AND AFFILIATES

Consolidating Statement of Financial Position

September 30, 2019

ASSETS	TCM	MRA	TCMSF	NHP	Eliminations	Consolidated Total
Current						
Cash and cash equivalents	\$ 1,186,275	\$ 9,628	\$ 29,347	\$ 54,804	\$ -	\$ 1,280,054
Accounts receivable, net	7,843	-	-	-	-	7,843
Promises to give	222,178	-	-	-	-	222,178
Intercompany receivables	252,252	-	101,806	-	(354,058)	-
Investments	1,290,278	-	-	-	-	1,290,278
Investments in affiliates	-	-	94,000	-	(94,000)	-
Prepaid expenses	428,868	-	-	-	-	428,868
Total current assets	3,387,694	9,628	225,153	54,804	(448,058)	3,229,221
Property and Equipment, Net	8,784,256	-	-	-	-	8,784,256
Other						
Promises to give - long term	100,000	-	-	-	-	100,000
Property held for New Horizon Program	-	-	-	147,380	-	147,380
Annuity investments	207,469	-	-	-	-	207,469
Total Assets	\$ 12,479,419	\$ 9,628	\$ 225,153	\$ 202,184	\$ (448,058)	\$ 12,468,326

THE CITY MISSION AND AFFILIATES

Consolidating Statement of Financial Position (Continued)

September 30, 2019

	<u>TCM</u>	<u>MRA</u>	<u>TCMSF</u>	<u>NHP</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
LIABILITIES						
Current						
Accounts payable	\$ 128,168	\$ -	\$ -	\$ 982	\$ -	\$ 129,150
Accrued vacation	143,389	-	-	-	-	143,389
Accrued expenses	46,272	-	-	-	-	46,272
Accrued payroll	18,038	-	-	-	-	18,038
Annuity payment liability	66,465	-	-	-	-	66,465
Intercompany payable	-	-	-	101,806	(101,806)	-
Liabilities of discontinued operations	-	252,252	-	-	(252,252)	-
	<u>402,332</u>	<u>252,252</u>	<u>-</u>	<u>102,788</u>	<u>(354,058)</u>	<u>403,314</u>
Total current liabilities / total liabilities	402,332	252,252	-	102,788	(354,058)	403,314
NET ASSETS						
Without donor restrictions	11,600,747	(242,624)	225,153	99,396	(94,000)	11,588,672
With donor restrictions	476,340	-	-	-	-	476,340
	<u>12,077,087</u>	<u>(242,624)</u>	<u>225,153</u>	<u>99,396</u>	<u>(94,000)</u>	<u>12,065,012</u>
Total Liabilities and Net Assets	<u>\$ 12,479,419</u>	<u>\$ 9,628</u>	<u>\$ 225,153</u>	<u>\$ 202,184</u>	<u>\$ (448,058)</u>	<u>\$ 12,468,326</u>

THE CITY MISSION AND AFFILIATES

Consolidating Statement of Activities and Changes in Net Assets

For the Year Ended September 30, 2019

	TCM		MRA	TCMSF	NHP	Eliminations	Consolidated
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions					Total
Support and Revenues							
Contributions	\$ 7,652,581	\$ 293,728	\$ -	\$ 150,735	\$ -	\$ (128,000)	\$ 7,969,044
Contributions- donated marketable securities	289,714	-	-	-	-	-	289,714
Contributions- donated materials and services	386,818	-	-	3,150	-	-	389,968
Interest and dividend income	19,209	-	-	-	-	-	19,209
Realized and unrealized loss on investments	(46,380)	-	-	-	-	-	(46,380)
Shared services income	62,500	-	-	-	-	(62,500)	-
Other income	159,161	-	-	-	-	-	159,161
Special events	131,726	-	-	-	-	-	131,726
	8,655,329	293,728	-	153,885	-	(190,500)	8,912,442
For profit revenue:							
NHP revenue	-	-	-	-	129,697	(90,000)	39,697
Total support and revenues before capital campaign	8,655,329	293,728	-	153,885	129,697	(280,500)	8,952,139
Functional Expenses							
Program expenses	6,622,894	-	-	70,641	-	(419,548)	6,273,987
Development	484,852	-	-	-	-	-	484,852
Administrative expenses	1,063,668	-	-	-	-	(643,262)	420,406
Total functional expenses	8,171,414	-	-	70,641	-	(1,062,810)	7,179,245
Other Expenses							
For profit expenses:							
NHP expenses	-	-	-	-	25,251	-	25,251
Total expenses before capital campaign	8,171,414	-	-	70,641	25,251	(1,062,810)	7,204,496
Change in Net Assets before Capital Campaign	483,915	293,728	-	83,244	104,446	782,310	1,747,643
Capital Campaign							
With donor restrictions support and revenues	-	343,610	-	-	-	-	343,610
Net assets released from restrictions	200,298	(200,298)	-	-	-	-	-
Total capital campaign	200,298	143,312	-	-	-	-	343,610
Increase (Decrease) in Net Assets from Continued operations	684,213	437,040	-	83,244	104,446	782,310	2,091,253
Discontinued Operations:							
MRA revenues	-	-	2,015,013	-	-	(1,062,810)	952,203
MRA expenses	-	-	(1,508,400)	-	-	191,500	(1,316,900)
Increase (Decrease) in Net Assets from Discontinued operations	-	-	506,613	-	-	(871,310)	(364,697)
Increase (Decrease) in Net Assets	684,213	437,040	506,613	83,244	104,446	(89,000)	1,726,556
Net Assets (Deficit) - Beginning of Year	10,916,534	39,300	(749,237)	141,909	(5,050)	(5,000)	10,338,456
Net Assets (Deficit) - End of Year	<u>\$ 11,600,747</u>	<u>\$ 476,340</u>	<u>\$ (242,624)</u>	<u>\$ 225,153</u>	<u>\$ 99,396</u>	<u>\$ (94,000)</u>	<u>\$ 12,065,012</u>