

MEMPHIS UNION MISSION AND SUBSIDIARY

Consolidated Financial Statements
For the Years Ended September 30, 2017 and 2016

MEMPHIS UNION MISSION AND SUBSIDIARY

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Independent Auditor's Report

Board of Directors
Memphis Union Mission
Memphis, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Memphis Union Mission and subsidiary (collectively, the Mission), which comprise the consolidated statements of financial position as of September 30, 2017 and the related consolidated statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Memphis Union Mission and subsidiary as of September 30, 2017 and the results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Mission as of September 30, 2016, were audited by other auditors whose report dated January 16, 2017, expressed an unmodified opinion on those financial statements.

Mayer Hoffman McCann P.C.

Memphis, Tennessee
January 9, 2018

MEMPHIS UNION MISSION AND SUBSIDIARY

Consolidated Statements of Financial Position
September 30, 2017 and 2016

<u>Assets</u>		
	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 3,265,587	\$ 3,185,623
Cash and cash equivalents - restricted	2,889,215	1,489,347
Promises to give, current	920,880	43,437
Investments, at fair value	2,654,211	2,115,224
Receivables	8,267	1,240
Prepaid expenses and other	<u>147,335</u>	<u>91,980</u>
Total current assets	9,885,495	6,926,851
Property and equipment, net	6,406,067	6,042,415
Promises to give, long-term, net	<u>2,101,400</u>	<u>1,167,956</u>
Total assets	<u>\$ 18,392,962</u>	<u>\$ 14,137,222</u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 225,107	\$ 40,380
Client funds payable	20,801	21,794
Accrued expenses	<u>56,047</u>	<u>74,676</u>
Total current liabilities	301,955	136,850
Net assets		
Unrestricted		
Undesignated	5,773,445	3,221,598
Property and equipment	6,406,067	6,042,415
Board designated	<u>2,047,697</u>	<u>2,035,619</u>
Total unrestricted net assets	12,179,512	11,299,632
Temporarily restricted	<u>5,911,495</u>	<u>2,700,740</u>
Total net assets	<u>18,091,007</u>	<u>14,000,372</u>
Total liabilities and net assets	<u>\$ 18,392,962</u>	<u>\$ 14,137,222</u>

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

MEMPHIS UNION MISSION AND SUBSIDIARY

Consolidated Statement of Activities
For the Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and other revenues			
Contributions	\$ 3,279,458	\$ 3,504,861	\$ 6,784,319
Donated land and building	60,000	-	60,000
Donated investments	59,313	-	59,313
Program revenues	430,175	-	430,175
Special event revenues, net of direct expenses	10,673	-	10,673
Gain on sale of property and equipment	792	-	792
Investment return	<u>427,405</u>	<u>10,910</u>	<u>438,315</u>
	4,267,816	3,515,771	7,783,587
Net assets released from restrictions	<u>305,016</u>	<u>(305,016)</u>	<u>-</u>
Total support and other revenues	4,572,832	3,210,755	7,783,587
Expenses			
Program services			
Men's Emergency Shelter	751,853	-	751,853
Calvary Colony	555,861	-	555,861
Wright Transitional House	233,432	-	233,432
Moriah House	476,667	-	476,667
Intact Family Housing	51,115	-	51,115
Bus Bench	36,168	-	36,168
Opportunity Center	<u>305,587</u>	<u>-</u>	<u>305,587</u>
Total program services	2,410,683	-	2,410,683
Supporting services			
General administration	420,124	-	420,124
Fundraising	<u>862,145</u>	<u>-</u>	<u>862,145</u>
Total supporting services	1,282,269	-	1,282,269
Total expenses	<u>3,692,952</u>	<u>-</u>	<u>3,692,952</u>
Increase in net assets	879,880	3,210,755	4,090,635
Net assets at beginning of year	<u>11,299,632</u>	<u>2,700,740</u>	<u>14,000,372</u>
Net assets at end of year	<u>\$ 12,179,512</u>	<u>\$ 5,911,495</u>	<u>\$ 18,091,007</u>

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

MEMPHIS UNION MISSION AND SUBSIDIARY

Consolidated Statement of Activities
For the Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and other revenues			
Contributions	\$ 3,636,852	\$ 687,494	\$ 4,324,346
Donated investments	8,397	-	8,397
Program revenues	418,581	-	418,581
Special event revenues, net of direct expenses	5,051	-	5,051
Investment return	<u>282,956</u>	<u>7,320</u>	<u>290,276</u>
	4,351,837	694,814	5,046,651
Net assets released from restrictions	<u>182,589</u>	<u>(182,589)</u>	<u>-</u>
Total support and other revenues	<u>4,534,426</u>	<u>512,225</u>	<u>5,046,650</u>
Expenses			
Program services			
Men's Emergency Shelter	732,293	-	732,293
Calvary Colony	541,605	-	541,605
Wright Transitional House	240,837	-	240,837
Moriah House	470,737	-	470,737
Intact Family Housing	51,796	-	51,796
Bus Bench	36,725	-	36,725
Opportunity Center	<u>311,731</u>	<u>-</u>	<u>311,731</u>
Total program services	2,385,724	-	2,385,724
Supporting services			
General administration	400,559	-	400,559
Fundraising	855,558	-	855,558
Total supporting services	<u>1,256,117</u>	<u>-</u>	<u>1,256,117</u>
Total expenses	<u>3,641,841</u>	<u>-</u>	<u>3,641,841</u>
Increase in net assets	892,584	512,225	1,404,809
Net assets at beginning of year	<u>10,407,048</u>	<u>2,188,515</u>	<u>12,595,563</u>
Net assets at end of year	<u>\$ 11,299,632</u>	<u>\$ 2,700,740</u>	<u>\$ 14,000,372</u>

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

MEMPHIS UNION MISSION AND SUBSIDIARY

Consolidated Statement of Functional Expenses Year Ended September 30, 2017

	Program Services								Supporting Services			Total Expenses
	Men's Emergency Shelter	Calvary Colony	Wright Transitional House	Moriah House	Intact Family Housing	Bus Bench	Opportunity Center	Total Program Services	General Administration	Fundraising	Total Supporting Services	
	Salaries	\$ 376,416	\$ 187,512	\$ 111,130	\$ 219,970	\$ 22,154	\$ 17,206	\$ 145,697	\$ 1,080,085	\$ 222,676	\$ 70,038	\$ 292,714
Employee benefits	45,270	27,176	6,451	23,859	2,742	1,412	17,794	124,704	52,936	19,395	72,331	197,035
Payroll taxes	26,785	13,189	8,170	15,770	1,522	1,244	10,642	77,322	15,672	5,045	20,717	98,039
Professional fees	6,096	5,338	2,080	3,859	822	260	3,193	21,648	79,052	185,832	264,884	286,532
Supplies	54,432	12,588	6,221	13,528	-	5,657	16,854	109,280	4,739	20,509	25,248	134,528
Telephone and internet	7,113	8,593	9,873	6,102	-	-	98	31,779	-	20,323	20,323	52,102
Postage	286	120	331	743	-	48	109	1,637	3,284	18,493	21,777	23,414
Travel	-	-	-	-	-	-	-	-	-	1,083	1,083	1,083
Food	33,804	9,457	3,925	13,542	-	-	10,521	71,249	1,303	-	1,303	72,552
Donor acquisition	-	-	-	-	-	-	-	-	-	226,074	226,074	226,074
Newsletter/brochure	-	-	-	-	-	-	-	-	-	73,411	73,411	73,411
Direct mail appeal	-	-	-	-	-	-	-	-	-	212,886	212,886	212,886
Radio/TV advertising	3,896	3,896	3,896	3,896	3,004	-	2,562	21,150	-	-	-	21,150
Repairs and maintenance	38,110	95,051	9,285	21,046	4,829	2,949	11,313	182,583	9,241	8,263	17,504	200,087
Insurance	17,942	24,595	7,934	15,868	3,174	793	13,261	83,567	2,380	793	3,173	86,740
Utilities	62,666	66,595	33,355	31,151	5,540	-	37,584	236,891	-	-	-	236,891
Allowances - residents	1,725	16,445	2,045	3,671	-	-	2,860	26,746	-	-	-	26,746
Taxes and licenses	28,330	140	202	50	-	2,958	5,300	36,980	890	-	890	37,870
Vending machine	20,305	3,273	2,191	-	-	-	3,953	29,722	-	-	-	29,722
Miscellaneous	562	198	200	51	-	-	-	1,011	23,354	-	23,354	24,365
Bad debt expense	-	-	-	-	-	3,641	-	3,641	-	-	-	3,641
Depreciation	28,115	81,695	26,143	103,561	7,328	-	23,846	270,688	4,597	-	4,597	275,285
	<u>\$ 751,853</u>	<u>\$ 555,861</u>	<u>\$ 233,432</u>	<u>\$ 476,667</u>	<u>\$ 51,115</u>	<u>\$ 36,168</u>	<u>\$ 305,587</u>	<u>\$ 2,410,683</u>	<u>\$ 420,124</u>	<u>\$ 862,145</u>	<u>\$ 1,282,269</u>	<u>\$ 3,692,952</u>

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

MEMPHIS UNION MISSION AND SUBSIDIARY

Consolidated Statement of Functional Expenses
Year Ended September 30, 2016

	Program Services								Supporting Services			Total Expenses
	Men's	Calvary	Wright	Moriah	Intact	Bus	Opportunity	Total	General	Total		
	Emergency Shelter	Colony	Transitional House	House	Family Housing	Bench	Center	Program Services		Administration	Fundraising	
Salaries	\$ 364,471	\$ 199,167	\$ 108,487	\$ 214,340	\$ 21,641	\$ 16,807	\$ 144,753	\$ 1,069,666	\$ 213,710	\$ 174,825	\$ 388,535	\$ 1,458,200
Employee benefits	40,711	30,089	7,098	25,644	2,903	1,414	17,936	125,795	42,382	17,281	59,664	185,458
Payroll taxes	26,156	13,624	7,964	15,354	1,484	1,215	10,567	76,364	15,062	12,868	27,931	104,294
Professional fees	6,449	6,449	2,098	3,934	787	262	3,297	23,276	87,754	79,240	166,995	190,271
Supplies	56,476	12,957	6,167	10,551	-	4,019	13,978	104,148	3,515	18,527	22,042	126,189
Telephone and internet	7,145	8,696	9,497	6,345	-	-	-	31,683	-	1,983	1,983	33,667
Postage	200	421	245	905	3	36	15	1,825	1,804	23,506	25,310	27,135
Food	34,760	7,230	4,029	11,361	54	-	8,945	66,379	1,506	168	1,674	68,053
Donor acquisition	-	-	-	-	-	-	-	-	-	236,354	236,354	236,354
Newsletter/brochure	-	-	-	-	-	-	-	-	-	57,717	57,717	57,717
Direct mail appeal	-	-	-	-	-	-	-	-	-	219,282	219,282	219,282
Radio/TV advertising	3,093	3,093	3,093	3,093	2,281	-	1,610	16,263	2,134	362	2,496	18,759
Repairs and maintenance	37,352	77,077	9,313	33,431	3,064	1,862	18,886	180,985	10,065	9,848	19,913	200,897
Insurance	13,011	18,412	8,501	12,714	3,815	3,091	12,557	72,101	5,278	3,139	8,417	80,519
Utilities	60,780	66,118	38,214	30,140	8,090	-	37,977	241,319	-	-	-	241,319
Allowances - residents	1,520	15,890	1,800	3,120	-	-	3,660	25,990	-	-	-	25,990
Taxes and licenses	26,895	794	5,722	25	-	6,115	-	39,551	79	-	79	39,630
Vending machine	25,564	6,238	2,176	-	-	-	4,408	38,386	-	-	-	38,387
Miscellaneous	1,883	839	749	45	-	-	794	4,310	12,263	-	12,263	16,574
Bad debt expense	-	-	-	-	-	1,904	-	1,904	-	-	-	1,904
Depreciation	25,827	74,511	25,685	99,736	7,675	-	32,349	265,783	5,006	458	5,464	271,246
	<u>\$ 732,293</u>	<u>\$ 541,605</u>	<u>\$ 240,838</u>	<u>\$ 470,738</u>	<u>\$ 51,797</u>	<u>\$ 36,725</u>	<u>\$ 311,732</u>	<u>\$ 2,385,728</u>	<u>\$ 400,559</u>	<u>\$ 855,558</u>	<u>\$ 1,256,117</u>	<u>\$ 3,641,841</u>

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

MEMPHIS UNION MISSION AND SUBSIDIARY

Consolidated Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Increase in net assets	\$ 4,090,635	\$ 1,404,809
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Donated investments	(59,313)	(8,397)
Donated land and building	(60,000)	-
Investments donated in lieu of cash for promises to give	-	(17,856)
Depreciation	275,285	271,246
Bad debt expense	3,641	-
Realized and unrealized gains on investments	(353,966)	(219,587)
Contributions restricted for construction of building	(1,710,327)	(513,407)
Gain on sale of property and equipment	(792)	-
Changes in operating assets and liabilities		
Accounts receivable	(7,027)	(1,240)
Promises to give	(1,814,528)	(174,087)
Prepaid expenses and other	(55,355)	13,733
Accounts payable	184,727	3,294
Client funds payable	(993)	11,444
Accrued expenses	(18,629)	26,149
Net cash provided by operating activities	473,358	796,101
Cash flows from investing activities:		
Purchases of property and equipment	(579,270)	(698,689)
Purchases of investments	(850,041)	(693,620)
Proceeds from sale of equipment	1,125	-
Proceeds from sale of investments	724,333	615,217
Net cash used in investing activities	(703,853)	(777,092)
Cash flows from financing activities:		
Proceeds from contributions restricted for construction of building	1,710,327	513,407
Net increase in cash and cash equivalents	1,479,832	532,416
Cash and cash equivalents at beginning of year	4,674,970	4,142,554
Cash and cash equivalents at end of year	\$ 6,154,802	\$ 4,674,970
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 3,265,587	\$ 3,185,623
Cash and cash equivalents - restricted	2,889,215	1,489,347
	\$ 6,154,802	\$ 4,674,970

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

MEMPHIS UNION MISSION AND SUBSIDIARY

Notes to Consolidated Financial Statements
September 30, 2017 and 2016

Note 1 - Summary of significant accounting policies

Principles of consolidation

Memphis Union Mission is a not-for-profit Tennessee corporation. Its wholly-owned subsidiary is a non-profit limited liability company. The consolidated financial statements include the accounts of Memphis Union Mission and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of organization

Founded in 1945, Memphis Union Mission is a Christian non-profit organization located in Memphis, Tennessee, that ministers to the spiritual and physical needs of the hurting and the homeless by providing food, shelter and clothing, as well as pastoral care and recovery programs. In offering these services to the needy, the Mission's ultimate goal is for clients to be freed from addictions, experience fulfilled, abundant lives, become productive family and community members, and play an active part in the local church. The Mission accomplishes this goal through six separate ministries that are located on five separate properties in Shelby County. The Mission has no denominational affiliation, receives no government funding, and is supported primarily from individual donor's contributions. The Mission formed a single member LLC in March 2010 to support the programs of the Mission.

Basis of accounting

The consolidated financial statements of the Mission have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Consolidated financial statement presentation

The consolidated financial statements reflect the results of all programs operated by the Mission. The Mission 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 the absence or existence of donor-imposed restrictions. Accordingly, net assets of the Mission and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations or the donor-imposed restrictions have expired or been satisfied. All gifts, grants and bequests are considered unrestricted unless specifically restricted by the donor.

Temporarily restricted net assets - Net assets that are subject to donor-imposed restrictions either for use during a specified time period or for a particular purpose.

MEMPHIS UNION MISSION AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

Note 1 - Summary of significant accounting policies (continued)

Consolidated financial statement presentation (continued)

Permanently restricted net assets - Net assets that are subject to donor-imposed restrictions that they be maintained permanently by the Mission. The donors of the assets allow the Mission to use all or part of the income earned on related investments for unrestricted or restricted purposes.

Net assets released from restrictions

When a donor-imposed restriction is fulfilled or when a time restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of activities as net assets released from restrictions.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and investments with maturities of three months or less and cash and cash equivalents held as part of the investment portfolio. The Mission considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The Mission maintains cash accounts which may exceed federally insured amounts at times and which may at times significantly exceed consolidated statements of financial position amounts due to outstanding checks.

Cash and cash equivalents - restricted

Cash and cash equivalents that are temporarily restricted are to be used to fund the Mission's Men's Emergency Shelter construction or for specific projects designated by a donor.

Investments and investment income

Investments are reported at fair value based on quoted prices in an active market. Realized and unrealized gains and losses on investments are reported in the consolidated statements of activities as increases or decreases in unrestricted net assets unless temporarily or permanently restricted by the donor or by law. The Mission's investments are held by a single custodian and investment decisions are made by the Mission's finance committee.

Investments in securities listed on a national securities exchange are valued at the last sales price or, if no sale occurred, at the mean of the closing bid and asked prices on the date of determination. Securities not so listed are valued at the mean between the last closing bid and asked prices on such day as reported by NASDAQ or other sources.

Investment income consists of interest and dividends and is available to support any activities of the Mission and is recognized as unrestricted revenue, unless otherwise specified by the donor.

MEMPHIS UNION MISSION AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

Note 1 - Summary of significant accounting policies (continued)

Fair value measurements

The Mission's investments include various types of securities in various companies within various markets that are considered available-for-sale securities and each is carried at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles establish a fair value hierarchy which gives the highest priority to observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to inputs from observable data other than quoted prices (Level 2) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The Mission's investments are valued using Level 1 inputs.

Promises to give

The Mission recognizes promises to give when written documentation is received and all conditions have been satisfied for the Mission to be eligible to receive the contributions. The Mission provides an allowance for doubtful accounts, as needed, for contributions deemed uncollectible. No provision for an allowance for doubtful accounts has been made since it is management's opinion that all promises to give are collectible.

Property and equipment

The Mission reports land, buildings and equipment at historical cost if purchased, or at fair value if donated, less accumulated depreciation. Property and equipment purchased in excess of \$1,500 are capitalized. Repairs and maintenance costs are expensed as incurred while betterments and improvements are capitalized. Provision for depreciation is recognized using primarily the straight-line method over the estimated useful lives of the depreciable assets. Upon the sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in the consolidated statements of activities.

Revenue recognition

The Mission recognizes contributions as revenue when received or unconditionally promised. Contributions are measured at the fair value of the assets or services received or promised. The fair value of contributions arising from unconditional promises to give cash or other assets in one or more future years is measured (discounted) using a risk-adjusted rate of return appropriate for the expected term of the promise to give. Such discounts are amortized between the date the promise to give is initially recognized and the date the actual cash is expected to be collected. Revenues from program service fees and special events are recognized when received. Revenues are classified as restricted support if they are received with donor stipulations that limit the use of the contributions. When a donor restriction expires in the same period received, the contribution is recognized as unrestricted support.

MEMPHIS UNION MISSION AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

Note 1 - Summary of significant accounting policies (continued)

Special event revenues

Special event revenues consist of fundraisers sponsored by the Mission and are reported net of direct expenses of \$10,673 and \$5,051 for the years ended September 30, 2017 and 2016, respectively.

Advertising

Advertising costs are expensed as incurred, except for direct mail appeals. Prepaid direct mail and postage consist of the cost of direct mailings that will be made in the subsequent year. For the years ended September 30, 2017 and 2016, advertising expense totaled \$307,447 and \$295,758, respectively.

Employee benefit plan

The Mission has a 403(b) plan that covers eligible employees. Participants may defer a portion of their compensation by contributing such amounts to the plan. The Mission had no expenses under this plan for the years ended September 30, 2017 and 2016.

Income taxes

The Mission is classified by the Internal Revenue Service as a public charity exempt from federal income taxes on related business income under the provision of Section 501(c)(3) of the Internal Revenue Code. Consequently, no federal or state income taxes have been provided in these financial statements, except on net income derived from unrelated business activities. The subsidiary is similarly exempt from Tennessee taxes in its related exempt net income under the provisions of the Tennessee Tax Code.

The Mission's federal and state exempt organization returns for the years ended September 30, 2014, 2015 and 2016, are subject to examination by the Internal Revenue Service, generally for three years after they are filed. As of September 30, 2017 and 2016, the Mission has not recognized liabilities for uncertain tax positions or associated interest and penalties.

In-kind contributions

The Mission receives various types of in-kind contributions in the course of daily operations, including professional services, supplies and materials. Contributed professional services are recognized as in-kind contributions if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contributions. Contributions of investments and tangible assets are recognized at fair value when received.

During the years ended September 30, 2017 and 2016, a number of volunteers have contributed significant voluntary services to the Mission which do not meet the two recognition criteria

MEMPHIS UNION MISSION AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

Note 1 - Summary of significant accounting policies (continued)

In-kind contributions (continued)

described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the consolidated financial statements.

The Mission recognized in-kind contributions totaling \$60,000 during the year ended June 30, 2017 for land and a building.

Functional expenses

Directly identifiable expenses are classified as program services, fundraising and general administration. Expenses related to more than one function are allocated to program, fundraising and general administration on the basis of management estimates. General administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Mission.

Estimates and uncertainties

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2016 consolidated financial statements in order to conform to 2017 presentation.

Recently issued accounting pronouncement

In August 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendment will be effective for the Mission for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Mission does not expect this amendment to have a material effect on its financial statements.

Events occurring after the report date

The Mission has evaluated subsequent events for potential recognition and disclosure through January 9, 2018, the date the consolidated financial statements were available to be issued.

MEMPHIS UNION MISSION AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

Note 2 - Investments

Total investments, carried at fair value, consist of the following:

	2017 Fair Value Measurements				
	Cost	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Government bonds	\$ 525,071	\$ -	\$ 522,602	\$ -	\$ 522,602
Corporate bonds	232,511	-	223,576	-	223,576
Mutual funds	188,194	248,750	-	-	248,750
Common stock	<u>1,282,836</u>	<u>1,659,283</u>	<u>-</u>	<u>-</u>	<u>1,659,283</u>
	<u>\$ 2,228,612</u>	<u>\$ 1,908,033</u>	<u>\$ 746,178</u>	<u>\$ -</u>	<u>\$ 2,654,211</u>

	2016 Fair Value Measurements				
	Cost	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Government bonds	\$ 325,230	\$ -	\$ 324,905	\$ -	\$ 324,905
Corporate bonds	198,391	-	190,955	-	190,955
Mutual funds	182,432	217,787	-	-	217,787
Common stock	<u>1,221,160</u>	<u>1,381,577</u>	<u>-</u>	<u>-</u>	<u>1,381,577</u>
	<u>\$ 1,927,213</u>	<u>\$ 1,599,364</u>	<u>\$ 515,860</u>	<u>\$ -</u>	<u>\$ 2,115,224</u>

The following schedule summarizes the components of investment return:

	2017	2016
Investment income	\$ 87,628	\$ 73,715
Investment fees	(3,279)	(3,026)
Realized gain on investments	116,378	5,655
Unrealized gain on investments	<u>237,588</u>	<u>213,932</u>
	<u>\$ 438,315</u>	<u>\$ 290,276</u>

MEMPHIS UNION MISSION AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

Note 3 - Promises to give

Promises to give as of September 30, 2017 and 2016 are expected to be collected as follows:

	<u>2017</u>	<u>2016</u>
Due in less than one year	\$ 920,880	\$ 43,437
Due in one to five years	<u>2,204,243</u>	<u>1,193,783</u>
	3,125,123	1,237,220
Discount to net present value	<u>(103,043)</u>	<u>(25,827)</u>
Promises to give, net	<u>\$ 3,022,080</u>	<u>\$ 1,211,393</u>

Promises to give are discounted based on the 3 month treasury bill rate as of September 30, 2017.

Promises to give do not reflect conditional promises for which conditions have not yet been met. As of September 30, 2017 these additional conditional promises to give totaled \$2,500,000. These promises to give were contingent on raising a total of \$15,000,000 for a capital project before May 31, 2018. As of September 30, 2017 approximately \$3,000,000 still needed to be raised before conditions would be satisfied and these additional promises to give would be recognized and recorded.

Note 4 - Prepaid expenses and other

Prepaid expenses and other as of September 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Software licenses	\$ 29,160	\$ 10,942
Other	1,530	3,040
Direct mail expense and postage	99,420	57,222
Insurance	<u>17,225</u>	<u>20,776</u>
	<u>\$ 147,335</u>	<u>\$ 91,980</u>

MEMPHIS UNION MISSION AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

Note 5 - Property and equipment

Property and equipment as of September 30, 2017 and 2016 consist of the following major classifications:

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 2,864,842	\$ 2,839,374
Buildings and improvements	6,053,024	5,926,831
Furniture and fixtures	286,427	286,428
Automobiles and trucks	262,379	245,629
Machinery and equipment	438,189	416,936
Office equipment and software	211,036	211,037
Promotional film	5,500	5,500
Construction in progress	<u>1,037,258</u>	<u>613,650</u>
	11,158,655	10,545,385
Accumulated depreciation	<u>(4,752,588)</u>	<u>(4,502,969)</u>
Property and equipment, net	\$ <u>6,406,067</u>	\$ <u>6,042,415</u>

Note 6 - Temporarily restricted net assets

The Mission's temporarily restricted net assets as of September 30, 2017, consist of cash and cash equivalents for replacement of the Men's Emergency Shelter totaling \$2,889,215 and promises to give totaling \$3,022,280. These assets are to be used to fund future capital projects including replacement of the Men's Shelter. These net assets will be released from restrictions as funds are expended for the renovations and expansions. There were no permanently restricted net assets as of September 30, 2017 and 2016.

Net assets restricted for purpose and time are as follows:

	<u>2017</u>	<u>2016</u>
Men's Emergency Shelter construction	\$ 2,889,215	\$ 1,489,347
Promises to give	<u>3,022,280</u>	<u>1,211,393</u>
	\$ <u>5,911,495</u>	\$ <u>2,700,740</u>

Net assets released from restrictions for purpose and time for the years ended September 30, 2017 and 2016, respectively, are as follows:

	<u>2017</u>	<u>2016</u>
Men's Emergency Shelter construction	\$ <u>305,016</u>	\$ <u>182,589</u>

MEMPHIS UNION MISSION AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)
September 30, 2017 and 2016

Note 7 - Board designations of unrestricted net assets

In support of the strategic plan, the Board of Directors designated a property and equipment investment account to acquire, replace or improve fixed assets.

The balance as of September 30, 2017 and 2016, consists of the following:

	<u>2017</u>	<u>2016</u>
Property and equipment fund - cash and cash equivalents/investments	\$ <u>2,047,697</u>	\$ <u>2,035,619</u>

Note 8 - Risk and uncertainties

The Mission has concentrated its credit risk for cash by maintaining deposits in financial institutions which may exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation. The Mission has not experienced any losses in such amounts and management believes the Mission is not exposed to significant credit risk to cash.

The Mission invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

The Mission utilizes professional investment advisors to assist in fulfilling its investment objectives. The finance committee and its advisors review the asset allocation on a monthly basis and work to ensure all strategies outlined are within the investment policy.

A significant portion of the Mission's revenues consists of commitments and fundraising. Thus, its funding is vulnerable to changes in the economy which could negatively impact the Mission.

Note 9 - Commitment

The Mission entered into a contract for Phase 1 construction of the Men's Shelter totaling \$739,910. As of September 30, 2017, the uncompleted portion of the contract not yet billed for design development and construction documents totaled \$432,265.

In October 2016, the Mission signed a consulting agreement for their current capital campaign totaling \$253,000. As of September 30, 2017, the uncompleted portion of the contract not yet billed totaled \$115,000. There is a 30 day cancellation clause in the contract; therefore, the commitment at September 30, 2017 is \$11,500.