MEMPHIS UNION MISSION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

WATKINS UIBERALL
Certified Public Accountants
Independent Member of BKR International

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Certified Public Accountants
Independent Member of BKR International

Watkins Uiberall, PLLC

1661 Aaron Brenner Drive • Suite 300
Memphis, Tennessee 38120
901.761.2720 • Fax: 901.683.1120

417 West Main Street • Suite 100
Tupelo, Mississippi 38804
662.269.4014 • Fax: 662.269.4016

www.wucpas.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Memphis Union Mission

We have audited the accompanying consolidated financial statements of Memphis Union Mission (nonprofit organization) and subsidiary, which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated 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, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements of Memphis Union Mission and subsidiary as of September 30, 2017, were audited by other auditors whose report dated January 9, 2018, expressed an unmodified opinion on those statements.

Watkins Uiberall, PLLC

Memphis, Tennessee
January 15, 2019

MEMPHIS UNION MISSION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2018 and 2017

Assets	2018	2017
Cash and cash equivalents	$ 7,924,946	$ 6,154,802
Promises to give, net	4,217,067	3,022,280
Investments, at fair value	2,840,573	2,654,211
Receivables	10,129	8,267
Prepaid expenses and other	183,087	147,335
Property and equipment, net	6,870,370	6,406,067
Total assets	$ 22,046,172	$ 18,392,962
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 216,115	$ 281,154
Client funds payable	34,055	20,801
Total liabilities	250,170	301,955
Net Assets		
Unrestricted		
Undesignated	3,577,413	3,725,748
Invested in property and equipment	6,870,370	6,406,067
Board-designated	3,112,435	2,047,697
Total unrestricted net assets	13,560,218	12,179,512
Temporarily restricted	8,235,784	5,911,495
Total net assets	21,796,002	18,091,007
Total liabilities and net assets	$ 22,046,172	$ 18,392,962

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

MEMPHIS UNION MISSION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

	Unrestricted	Temporarily Restricted	Total
Support and Other Revenues			
Contributions	$ 3,512,862	$ 3,204,688	$ 6,717,550
Program service fees	418,660	-	418,660
Special event revenues	4,788	-	4,788
Rental income	31,112	-	31,112
Investment return	294,145	-	294,145
Net assets released from restrictions	880,399	(880,399)	-
Total support and other revenues	5,141,966	2,324,289	7,466,255
Expenses			
Program Services			
Men's Emergency Shelter	798,181	-	798,181
Calvary Colony	562,508	-	562,508
Wright Transitional House	240,281	-	240,281
Moriah House	475,536	-	475,536
Intact Family Housing	45,328	-	45,328
Educational Center	33,022	-	33,022
Opportunity Center	306,835	-	306,835
Total program services	2,461,691	-	2,461,691
Supporting Services			
Management and general	450,951	-	450,951
Fundraising	848,618	-	848,618
Total supporting services	1,299,569	-	1,299,569
Total expenses	3,761,260		3,761,260
Change in net assets	1,380,706	2,324,289	3,704,995
Net assets, beginning of year	12,179,512	5,911,495	18,091,007
Net assets, end of year	$ 13,560,218	$ 8,235,784	$ 21,796,002

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

MEMPHIS UNION MISSION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Total
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 service fees	430,175	-	430,175
Special event revenues	10,673	-	10,673
Gain on sale of property and equipment	792	-	792
Investment return	427,405	10,910	438,315
Net assests released from restrictions	305,016	(305,016)	-
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 Hourse	233,432	-	233,432
Moriah House	476,667	-	476,667
Intact Family Housing	51,115	-	51,115
Opportunity Center	305,587	-	305,587
Total program services	2,374,515	-	2,374,515
Supporting Services			
General administration	456,292	-	456,292
Fundraising	862,145	-	862,145
Total supporting services	1,318,437	-	1,318,437
Total expenses	3,692,952	-	3,692,952
Change in net assets	879,880	3,210,755	4,090,635
Net assets, beginning of year	11,299,632	2,700,740	14,000,372
Net assets, end of year	$ 12,179,512	$ 5,911,495	$ 18,091,007

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

MEMPHIS UNION MISSION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2018

	Program Services								Supporting Services			
	Men's Emergency Shelter	Calvary Colony	Wright Transitional House	Moriah House	Intact Family Housing	Educational Center	Opportunity Center	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	$ 393,116	$ 198,478	$ 115,138	$ 220,297	$ 22,851	$ 15,577	$ 150,273	$ 1,115,730	$ 247,525	$ 72,833	$ 320,358	$ 1,436,088
Employee benefits	45,446	29,270	6,015	22,350	2,818	421	20,281	126,601	35,912	12,309	48,221	174,822
Payroll taxes	27,727	13,964	8,222	15,726	1,584	1,192	10,683	79,098	17,618	5,250	22,868	101,966
Professional fees	5,270	4,380	1,780	3,115	890	-	2,600	18,035	83,882	155,054	238,936	256,971
Supplies	61,561	11,492	6,082	9,382	-	5,436	16,325	110,278	4,495	14,326	18,821	129,099
Telephone and internet	7,988	10,381	9,772	7,115	-	-	-	35,256	519	19,530	20,049	55,305
Postage	119	178	409	757	-	-	39	1,502	2,610	25,525	28,135	29,637
Food	29,459	7,819	4,139	12,404	-	158	9,782	63,761	1,335	885	2,220	65,981
Donor acquisition	-	-	-	-	-	-	-	-	-	233,283	233,283	233,283
Newsletter/brochure	-	-	-	-	-	-	-	-	-	58,384	58,384	58,384
Direct mail appeal	-	-	-	-	-	-	-	-	-	234,520	234,520	234,520
Radio/TV advertising	3,513	3,513	3,513	3,513	1,201	-	2,846	18,099	-	3,018	3,018	21,117
Repairs & maintenance	39,031	75,509	11,971	28,174	3,555	-	15,203	173,443	17,893	11,109	29,002	202,445
Insurance	14,110	12,575	5,716	8,574	2,858	-	8,965	52,798	5,145	2,286	7,431	60,229
Utilities	65,229	94,716	37,490	33,865	2,498	-	39,760	273,558	-	-	-	273,558
Allowances - residents	1,840	19,300	1,900	3,675	-	-	2,400	29,115	-	-	-	29,115
Taxes and licenses	49,722	140	148	50	-	-	7,132	57,192	13,983	-	13,983	71,175
Vending machine	19,389	4,717	1,860	-	-	-	4,759	30,725	-	-	-	30,725
Miscellaneous	580	-	-	10	-	6,775	-	7,365	8,110	306	8,416	15,781
Depreciation	34,081	76,076	26,126	106,529	7,073	3,463	15,787	269,135	11,924	-	11,924	281,059
Total expenses	$ 798,181	$ 562,508	$ 240,281	$ 475,536	$ 45,328	$ 33,022	$ 306,835	$ 2,461,691	$ 450,951	$ 848,618	$ 1,299,569	$ 3,761,260

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

MEMPHIS UNION MISSION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2017

	Program Services							Supporting Services			
	Men's Emergency Shelter	Calvary Colony	Wright Transitional House	Moriah House	Intact Family Housing	Opportunity Center	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	$ 376,416	$ 187,512	$ 111,130	$ 219,970	$ 22,154	$ 145,697	$ 1,062,879	$ 239,882	$ 70,038	$ 309,920	$ 1,372,799
Employee benefits	45,270	27,176	6,451	23,859	2,742	17,794	123,292	54,348	19,395	73,743	197,035
Payroll taxes	26,785	13,189	8,170	15,770	1,522	10,642	76,078	16,916	5,045	21,961	98,039
Professional fees	6,096	5,338	2,080	3,859	822	3,193	21,388	79,312	185,832	265,144	286,532
Supplies	54,432	12,588	6,221	13,528	-	16,854	103,623	10,396	20,509	30,905	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	-	109	1,589	3,332	18,493	21,825	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 & maintenance	38,110	95,051	9,285	21,046	4,829	11,313	179,634	12,190	8,263	20,453	200,087
Insurance	17,942	24,595	7,934	15,868	3,174	13,261	82,774	3,173	793	3,966	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	-	5,300	34,022	3,848	-	3,848	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
Total expenses	$ 751,853	$ 555,861	$ 233,432	$ 476,667	$ 51,115	$ 305,587	$ 2,374,515	$ 456,292	$ 862,145	$ 1,318,437	$ 3,692,952

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

MEMPHIS UNION MISSION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2018 and 2017

	2018	2017
Cash Flows Provided By (Used For) Operating Activities:		
Change in net assets	$ 3,704,995	$ 4,090,635
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used For) Operating Activities:		
Donated investments	(62,026)	(59,313)
Donated land and building	-	(60,000)
Depreciation	281,059	275,285
Bad debt expense	-	3,641
Realized and unrealized gains on investments	(133,195)	(353,966)
Contributions restricted for construction	(1,893,475)	(1,710,327)
Gain on sale of property and equipment	-	(792)
Change in Operating Assets and Liabilities		
Promises to give	(1,194,787)	(1,814,528)
Receivables	(1,862)	(7,027)
Prepaid expenses and other	(35,752)	(55,355)
Accounts payable and accrued expenses	(65,039)	166,098
Client funds payable	13,254	(993)
Total adjustments	(3,091,823)	(3,617,277)
Net cash provided by operating activities	613,172	473,358
Cash Flows From (Used For) Investing Activities:		
Purchases of property and equipment	(745,362)	(579,270)
Proceeds from sale of equipment	-	1,125
Purchases of investments	(615,767)	(850,041)
Proceeds from sale of investments	624,626	724,333
Net cash used for investing activities	(736,503)	(703,853)
Cash Flows From Financing Activities:		
Proceeds from contributions restricted for construction	1,893,475	1,710,327
Net increase in cash and cash equivalents	1,770,144	1,479,832
Cash and cash equivalents at beginning of year	6,154,802	4,674,970
Cash and cash equivalents at end of year	$ 7,924,946	$ 6,154,802

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

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

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 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. This goal is accomplished through seven separate ministries that are located on five separate properties in Shelby County. Memphis Union Mission has no denominational affiliation, receives no government funding, and is supported primarily from individual donor contributions. A single member LLC was formed in March 2010 to support the programs of Memphis Union Mission.

Basis of Accounting and Principles of Consolidation

The accompanying consolidated financial statements of Memphis Union Mission and its wholly-owned subsidiary, WIT Properties, LLC (collectively, the "Mission"), have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany balances and transactions have been eliminated in consolidation.

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:

Permanently Restricted Net Assets – Permanently restricted net assets represent contributions subject to donor-imposed stipulations to be invested in perpetuity, for which only the income may be available for program operations or specific purposes. At September 30, 2018 and 2017, the Mission had no permanently restricted net assets.

Temporarily Restricted Net Assets – Temporarily restricted net assets represent contributions or other revenues wherein donors have specified the purpose for which the net assets are to be spent or time restrictions imposed or implied by the nature of the gift.

Unrestricted Net Assets – Unrestricted net assets are all the remaining net assets of the Mission.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. While management believes that these estimates are adequate at September 30, 2018 and 2017, actual results could differ from those estimates.

Concentrations and Credit Risks

The Mission's credit risks primarily relate to cash and investments. Cash deposits are maintained in financial institutions for which the balances may exceed amounts covered by insurance provided by the Federal Deposit Insurance Corporation ("FDIC"). The Mission has not experienced any losses of such funds, and management believes the Mission is not exposed to significant credit risk on cash.

The Mission's 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 financial statements. To mitigate these risks, 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.

Revenue Recognition

Contributions are recognized as revenue when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been met. All contributions are considered unrestricted unless specifically restricted by the donor. When a purpose restriction is fulfilled or time restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. When a donor restriction expires in the same period received, the contribution is recognized as unrestricted support.

Revenues from program service fees are recognized when earned. Any fees received in advance are deferred to the applicable period in which the related services are performed.

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 donation. Contributions of investments and tangible assets are recognized at fair value when received.

A substantial number of volunteers have contributed significant voluntary services to the Mission which do not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, money market accounts, and highly liquid investments and certificates of deposit purchased with original maturities of three months or less.

Investments

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

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques that incorporate risk-free interest rates applicable to the year in which the promises are received. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statement of activities. The Mission provides an allowance for doubtful accounts, as needed for contributions deemed uncollectible. At September 30, 2018 and 2017, 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. Property and equipment purchased in excess of $1,500 are capitalized. Provision for depreciation is recognized using primarily the straight-line method over the estimated useful lives of the depreciable assets ranging from 5 to 39 years. Repairs and maintenance costs are expensed as incurred while betterments and improvements are capitalized. 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 statement of activities.

Advertising

Advertising cost are expenses 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, 2018 and 2017, advertising expense totaled $314,021 and $307,447, respectively.

Income Taxes

Memphis Union Mission is organized as Tennessee non-profit corporation and has been recognized by the Internal Revenue Service as a public charity exempt from federal income taxes under the provisions of IRC Section 501 (c)(3) of the Internal Revenue Code. WIT Properties, LLC is a disregarded entity for tax purposes as Memphis Union Mission is the sole member. Additionally, the Mission is subject to income tax on net income derived from its business activities that are unrelated to its exempt purpose.

Functional Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the consolidated statement of functional expenses. Expenses that are identified with a specific program or supporting service are charged directly to the appropriate function. Expenses that relate to more than one function are allocated to the appropriate function on the basis of management estimates.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements in order to conform to the 2018 presentation. These reclassifications had no effect on previously reported total net assets.

Recent Accounting Pronouncement

The FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The most significant changes within the ASU impact the following areas:

1. Net Asset Classes – Net asset classification has been reduced from three classes of net assets (unrestricted, temporarily restricted and permanently restricted) to net assets with donor restrictions and net assets without donor restrictions.

2. Investment Return – Investment return will be reported net of external and direct internal investment expenses and those netted expenses are no longer required to be disclosed.

3. Expenses – Expenses by both their natural classification and their functional classification will be presented either on the face of the statement of activities, as a separate statement or in the notes to the financial statements.

4. Liquidity and Availability of Resources – The ASU requires disclosures that communicate qualitative information of how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, as well as quantitative information that communicates the availability of a not-for-profit entity's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.

5. Presentation of Operating Cash Flows – Not-for-profit entities can continue to present the statement of cash flows using either the direct method or indirect method. The ASU removes the requirement to present or disclose the indirect method when using the direct method of reporting cash flows.

The above changes only impact the presentation and disclosures within the financial statements. However, within the ASU, there is one change in the accounting requirements for not-for-profit entities. The placed-in-service approach will now be required for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The ASU eliminates the current option that, in the absence of explicit donor stipulations, had allowed a not-for-profit to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed, i.e. to match the depreciation expense on the asset) rather than when placed in service.

The Mission intends to adopt the new ASU guidance using the retrospective method for the year ending September 30, 2019.

Date of Management's Review

The Mission evaluated its September 30, 2018 consolidated financial statements for subsequent events through January 15, 2019, the date the consolidated financial statements were available to be issued. Except for the event disclosed in Note 8, the Mission is not aware of any other subsequent events which would require recognition or disclosure in the consolidated financial statements.

NOTE 2 – FAIR VALUE MEASUREMENTS

The Mission reports certain assets at fair value in the consolidated financial statements. 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. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices with Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs which are unobservable for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following is a description of the valuation methodologies used for assets measured at fair value:

Common stock/mutual funds – Valued based on quoted prices in active markets for identical assets.

Government bonds/Corporate bonds – Valued based on the current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

The following tables present assets that are measured at fair value on a recurring basis at September 30:

	September, 2018		
	Level 1	Level 2	Total
Investments			
Government bonds	$ -	$ 663,729	$ 663,729
Corporate bonds		228,024	228,024
Common stock	1,948,820	-	1,948,820
Total investments	$ 1,948,820	$ 891,753	$ 2,840,573

	September, 2017		
	Level 1	Level 2	Total
Investments			
Government bonds	$ -	$ 522,602	$ 522,602
Corporate bonds	-	223,576	223,576
Common stock	1,659,283	-	1,659,283
Mutual funds	248,750	-	248,750
Total investments	$ 1,908,033	$ 746,178	$ 2,654,211

The following schedule summarizes the components of investment return:

	2018	2017
Interest and dividends	$ 160,950	$ 84,349
Realized gains	209,888	116,378
Unrealized gains (losses)	(76,693)	237,588
	$ 294,145	$ 438,315

NOTE 3 – PROMISES TO GIVE

Unconditional promises to give consisted of the following at September 30:

	2018	2017
Due in less than one year	$ 1,637,288	$ 920,880
Due in one to five years	2,798,448	2,204,243
Less unamortized discount	(218,669)	(103,043)
	$ 4,217,067	$ 3,022,080

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 2.11%.

NOTE 4 – PREPAID EXPENSES AND OTHER

Prepaid expenses and other at September 30, 2018 and 2017 consist of the following:

	2018	2017
Software licenses	$ 31,333	$ 29,160
Other	4,000	1,530
Direct mail expense and postage	103,239	99,420
Insurance	44,515	17,225
	$ 183,087	$ 147,335

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2018 and 2017 consist of the following major classifications:

	2018	2017
Land and improvements	$ 2,864,841	$ 2,864,842
Buildings and improvements	6,130,833	6,053,024
Furniture and fixtures	290,511	286,427
Automobiles and trucks	262,379	262,379
Machinery and equipment	497,898	438,189
Office equipment and software	225,099	211,036
Promotional film	5,500	5,500
Construction in progress	1,626,954	1,037,258
	11,904,015	11,158,655
Accumulated depreciation	(5,033,645)	(4,752,588)
	$ 6,870,370	$ 6,406,067

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Net assets were restricted for the following purposes at September 30:

	2018	2017
Capital projects	$ 8,166,583	$ 5,758,854
Other programs	69,201	152,641
	$ 8,235,784	$ 5,911,495

NOTE 7 – BOARD-DESIGNATED 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. At September 30, 2018 and 2017, these designations totaled $3,112,435 and $2,047,697, respectively.

NOTE 8 – COMMITMENTS

The Mission entered into a contract for utility services for construction of a new opportunity center. In return for the utility company relocating and connecting services, the contract specifies a minimum monthly payment for the first three years of utility service at the new building. The total three year minimum utility cost will be $226,018, none of which is due and payable until utility services are connected to the new building.

Subsequent to year end, the Mission entered into a construction contract to build a new opportunity center. The contract calls for a guaranteed maximum price of $18,472,601 subject to certain allowances, additions and deductions by change order as provided in the contract documents. Payments on this contract are expected to be made as construction is completed during the years ending September 30, 2019 and 2020.

NOTE 9 – RETIREMENT PLAN

The Mission sponsors 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 made no employer contributions to the plan for the years ended September 30, 2018 and 2017.

NOTE 10 – RELATED PARTY TRANSACTION

The Mission purchased carpet totaling $28,434 and $0 for the years ended September 30, 2018 and 2017, respectively, from a company that is owned by a board member.