MEMPHIS UNION MISSION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

Watkins Uiberall
Certified Public Accountants
Independent Member of BKR International

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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 (a nonprofit organization) and subsidiaries, which comprise the consolidated statements of financial position as of September 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 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 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 subsidiaries as of September 30, 2020 and 2019, 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.

Watkins Uiberall, PLLC

Memphis, Tennessee
January 29, 2021

MEMPHIS UNION MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2020 and 2019

Assets

	2020	2019
Cash, Cash Equivalents, and Restricted Cash		
Undesignated	$ 3,859,849	$ 3,943,873
Restricted for construction and related fees	5,677,636	-
Board-designated	447,079	3,291,855
Total cash, cash equivalents, and restricted cash	9,984,564	7,235,728
Investments, board-designated	1,275,493	2,860,407
Promises to give, net	1,318,452	2,703,236
Receivables	-	7,910
Note receivable	14,112,000	-
Prepaid expenses and other assets	185,383	139,512
Property and equipment, net	22,861,317	10,997,686
Total assets	$ 49,737,209	$ 23,944,479

Liabilities and Net Assets

	2020	2019
Accounts payable and accrued expenses	$ 1,493,379	$ 1,057,415
Retainage payable	732,479	181,520
Client funds payable	27,285	35,264
Other liabilities	56,342	-
Line of credit	3,291,004	-
Notes payable, net	19,331,414	-
Total liabilities	24,931,903	1,274,199
Net Assets		
Without donor restrictions	24,805,306	18,271,152
Net Assets with Donor Restrictions		
Purpose restrictions	-	4,399,128
Total net assets	24,805,306	22,670,280
Total liabilities and net assets	$ 49,737,209	$ 23,944,479

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

MEMPHIS UNION MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Other Revenues			
Contributions	$ 5,177,663	$ 624,584	$ 5,802,247
Program service fees	375,258	-	375,258
Rental income	18,350	-	18,350
Investment return	28,429	-	28,429
Interest income	124,692	-	124,692
Net assets released from restrictions	4,700,221	(4,700,221)	-
Total support and other revenues	10,424,613	(4,075,637)	6,348,976
Expenses and Losses			
Program Services Expenses			
Men's Emergency Shelter	852,145	-	852,145
Calvary Colony	580,736	-	580,736
Wright Transitional House	247,144	-	247,144
Moriah House	434,387	-	434,387
Intact Family Housing	41,334	-	41,334
Educational Center	58,588	-	58,588
Opportunity Center	338,959	-	338,959
Total program services expenses	2,553,293	-	2,553,293
Supporting Services Expenses			
Management and general	503,513	-	503,513
Fundraising	833,653	-	833,653
Total supporting services expenses	1,337,166	-	1,337,166
Loss on uncollectible promises to give	-	323,491	323,491
Total expenses and losses	3,890,459	323,491	4,213,950
Change in net assets	6,534,154	(4,399,128)	2,135,026
Net assets, beginning of year	18,271,152	4,399,128	22,670,280
Net assets, end of year	$ 24,805,306	$ -	$ 24,805,306

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

MEMPHIS UNION MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Other Revenues			
Contributions	$ 3,620,737	$ 278,046	$ 3,898,783
Program service fees	401,662	-	401,662
Rental income	25,601	-	25,601
Investment return	217,759	-	217,759
Net assets released from restrictions	4,114,702	(4,114,702)	-
Total support and other revenues	8,380,461	(3,836,656)	4,543,805
Expenses			
Program Services			
Men's Emergency Shelter	798,677	-	798,677
Calvary Colony	600,717	-	600,717
Wright Transitional House	249,240	-	249,240
Moriah House	449,794	-	449,794
Intact Family Housing	34,799	-	34,799
Educational Center	54,923	-	54,923
Opportunity Center	309,531	-	309,531
Total program services	2,497,681	-	2,497,681
Supporting Services			
Management and general	427,688	-	427,688
Fundraising	744,158	-	744,158
Total supporting services	1,171,846	-	1,171,846
Total expenses	3,669,527	-	3,669,527
Change in net assets	4,710,934	(3,836,656)	874,278
Net assets, beginning of year	13,560,218	8,235,784	21,796,002
Net assets, end of year	$ 18,271,152	$ 4,399,128	$ 22,670,280

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

MEMPHIS UNION MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2020

	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	$ 449,126	$ 238,787	$ 128,752	$ 196,731	$ 25,069	$ 26,349	$ 179,209	$ 1,244,023	$ 259,441	$ 85,038	$ 344,479	$ 1,588,502
Employee benefits	52,006	57,439	9,040	23,802	3,115	391	22,752	168,545	33,058	2,862	35,920	204,465
Payroll taxes	32,039	16,227	8,772	13,376	1,534	2,066	12,283	86,297	19,317	6,432	25,749	112,046
Professional fees	388	508	-	40	-	-	388	1,324	111,674	36,418	148,092	149,416
Supplies	51,384	15,594	7,131	8,437	-	7,018	20,782	110,346	5,854	28,034	33,888	144,234
Telephone and internet	9,872	18,017	6,709	8,184	-	-	-	42,782	-	15,020	15,020	57,802
Postage	67	43	595	315	-	-	-	1,020	3,205	29,698	32,903	33,923
Food	22,543	9,177	5,150	6,278	-	69	10,466	53,683	787	52	839	54,522
Donor acquisition	-	-	-	-	-	-	-	-	-	227,418	227,418	227,418
Newsletter/brochure	-	-	-	-	-	-	-	-	-	33,031	33,031	33,031
Direct mail appeal	-	-	-	-	-	-	-	-	-	314,064	314,064	314,064
Radio/online advertising	-	-	-	-	-	-	-	-	-	34,065	34,065	34,065
Repairs & maintenance	41,947	62,227	11,206	12,868	1,253	740	16,203	146,444	3,854	51	3,905	150,349
Software and IT	-	5,850	649	7,800	652	1,600	-	16,551	18,490	19,910	38,400	54,951
Insurance	8,251	26,658	6,347	10,790	2,539	-	8,362	62,947	1,269	635	1,904	64,851
Utilities	73,943	87,055	31,950	31,333	99	-	38,135	262,515	-	-	-	262,515
Allowances - residents	4,884	13,874	2,244	2,334	-	-	3,020	26,356	-	-	-	26,356
Taxes and licenses	51,886	2,899	144	100	-	-	6,000	61,029	16,853	-	16,853	77,882
Vending machine	20,759	4,866	389	-	-	-	5,319	31,333	-	-	-	31,333
Miscellaneous	102	-	-	-	-	13,429	-	13,531	10,427	50	10,477	24,008
Interest	-	-	-	-	-	-	-	-	11,909	-	11,909	11,909
Depreciation	32,948	21,515	28,066	111,999	7,073	6,926	16,040	224,567	7,375	875	8,250	232,817
Total expenses	$ 852,145	$ 580,736	$ 247,144	$ 434,387	$ 41,334	$ 58,588	$ 338,959	$ 2,553,293	$ 503,513	$ 833,653	$ 1,337,166	$ 3,890,459

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

MEMPHIS UNION MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2019

	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	$ 400,422	$ 216,474	$ 119,674	$ 196,401	$ 23,524	$ 27,992	$ 157,928	$ 1,142,415	$ 236,347	$ 77,349	$ 313,696	$ 1,456,111
Employee benefits	43,050	40,260	5,361	22,192	2,694	418	21,089	135,064	27,418	5,362	32,780	167,844
Payroll taxes	28,443	14,911	8,756	13,732	1,625	2,174	11,138	80,779	16,676	5,747	22,423	103,202
Professional fees	375	375	-	-	-	-	375	1,125	96,071	55,762	151,833	152,958
Supplies	63,038	22,502	8,185	14,043	590	10,583	19,860	138,801	4,768	48,651	53,419	192,220
Telephone and internet	10,635	12,126	10,978	7,200	-	-	-	40,939	847	19,149	19,996	60,935
Postage	133	70	264	554	-	-	65	1,086	4,835	16,141	20,976	22,062
Food	25,301	9,691	3,929	8,111	-	87	9,169	56,288	1,754	637	2,391	58,679
Donor acquisition	-	-	-	-	-	-	-	-	-	188,205	188,205	188,205
Newsletter/brochure	-	-	-	-	-	-	-	-	-	43,354	43,354	43,354
Direct mail appeal	-	-	-	-	-	-	-	-	-	260,558	260,558	260,558
Radio/online advertising	1,352	1,352	1,352	1,352	1,334	-	18	6,760	-	1,480	1,480	8,240
Repairs & maintenance	38,422	81,385	14,303	17,342	671	17	15,144	167,284	1,248	10	1,258	168,542
Software and IT	-	6,138	806	8,365	681	-	-	15,990	15,660	15,484	31,144	47,134
Insurance	15,046	15,673	6,633	9,404	3,135	-	9,678	59,569	3,919	2,508	6,427	65,996
Utilities	72,036	91,428	37,052	35,218	545	-	41,309	277,588	-	-	-	277,588
Allowances - residents	3,620	15,820	1,960	3,555	-	-	2,660	27,615	-	-	-	27,615
Taxes and licenses	40,888	5,621	158	100	-	-	1,650	48,417	7,951	-	7,951	56,368
Vending machine	19,367	3,443	1,242	-	-	-	3,452	27,504	-	-	-	27,504
Miscellaneous	1,436	842	730	660	-	13,652	480	17,800	2,466	3,323	5,789	23,589
Depreciation	35,113	62,606	27,857	111,565	-	-	15,516	252,657	7,728	438	8,166	260,823
Total expenses	$ 798,677	$ 600,717	$ 249,240	$ 449,794	$ 34,799	$ 54,923	$ 309,531	$ 2,497,681	$ 427,688	$ 744,158	$ 1,171,846	$ 3,669,527

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

MEMPHIS UNION MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities:		
Change in net assets	$ 2,135,026	$ 874,278
Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities:		
Amortization of debt issuance costs	11,909	-
Donated investments	(5,405)	-
Depreciation	232,817	260,823
Loss on uncollectible promises to give	323,491	-
Realized and unrealized (gains) losses on investments	46,003	35,429
Contributions restricted for construction	(514,531)	(237,192)
Change in Operating Assets and Liabilities		
Promises to give	(115,233)	(23,038)
Receivables	7,910	2,219
Prepaid expenses and other assets	(45,871)	43,575
Accounts payable and accrued expenses	(1,691,641)	(292,942)
Retainage payable	550,959	181,520
Client funds payable	(7,979)	1,209
Other liabilities	56,342	-
Total adjustments	(1,151,229)	(28,397)
Net cash provided by operating activities	983,797	845,881
Cash Flows From Investing Activities:		
Purchases of property and equipment	(9,968,843)	(3,253,897)
Issuance of note receivable	(14,112,000)	-
Purchases of investments	(485,061)	(767,881)
Proceeds from sale of investments	2,029,377	712,618
Net cash used for investing activities	(22,536,527)	(3,309,160)
Cash Flows From Financing Activities:		
Principal payments on notes payable	(1,500,000)	-
Net advances on line of credit	3,291,004	-
Proceeds from notes payable	20,819,505	-
Proceeds from contributions restricted for construction	1,691,057	1,774,061
Net cash provided by financing activities	24,301,566	1,774,061
Net increase (decrease) in cash, cash equivalents, and restricted cash	2,748,836	(689,218)
Cash, cash equivalents, and restricted cash, beginning of year	7,235,728	7,924,946
Cash, cash equivalents, and restricted cash, end of year	$ 9,984,564	$ 7,235,728
Supplemental Cash Flow Information:		
Cash paid for interest, all of which is capitalized	$ 206,796	$ -
Noncash Operating and Investing Activities:		
Construction costs and capitalized interest accrued in payables	$ 2,127,605	$ 1,134,242

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 and a non-profit corporation were formed in March 2010 and November 2019, respectively, 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 subsidiaries, WIT Properties, LLC, and Memphis Union Mission Support Corporation, (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.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition

The Mission receives support from a variety of sources including contributions from individuals, estates, and other agencies. Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give, that is those with a measurable performance or other barrier, and a right of return, are not recognized until the condition on which they depend have been met.

Program service fees consists of dorm collection fees, vending machine sales, support service fees, and advertising. Revenues from program service fees are recognized when services have been performed or at the time of sale when goods are provided to the customer.

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.

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.

Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Expenses that are identified with a specific program or support service are charged directly to the appropriate function. Other shared costs have been allocated among the programs and supporting services benefited based on management's estimate of the relative effort expended for the related functions.

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.

Restricted cash consists of cash restricted for construction and related fees in connection with the New Market Tax Credit transaction the Mission entered into for the construction of the new Opportunity Center building. See Notes 6 and 9 for additional information.

Investments

Purchased investments are carried at their fair values in the consolidated statements of financial position. Donated investments are recorded at fair value at the date of donation. Net investment return (loss) is reported in the consolidated statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less related investment advisory fees.

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, 2020 and 2019, no provision for an allowance for doubtful accounts has been made since it is management's opinion that all promises to give are collectible.

Note Receivable

The note receivable is collateralized by the membership interests related to the New Market Tax Credit transaction described in Note 6. The Mission has one class of financing receivables from a highly credible financial institution. Management assesses the credit quality of the note based on indicators such as collateralization and collection experience. At September 30, 2020, no allowance has been established.

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.

Debt Issuance Costs

Debt issuance costs include capitalized costs related to obtaining debt. These costs are amortized using the straight-line method over the term of the related debt, which approximates the effective interest method. When a loan is paid in full, any unamortized debt issuance costs are removed from the related accounts and charged to interest expense. Unamortized costs are presented as a direct deduction from the face amount of the debt. Amortization is included with interest expense in the statement of functional expenses.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Income Tax Status

Memphis Union Mission and Memphis Union Mission Support Corporation are organized as Tennessee non-profit corporations and have been recognized by the Internal Revenue Service as public charities 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. The Mission files an exempt organization return in the U.S. federal jurisdiction. Additionally, the Mission is subject to income tax on net income derived from its business activities that are unrelated to its exempt purpose.

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, 2020 and 2019, advertising expense totaled $381,160 and $312,152, respectively.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported total net assets.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting and Standards Board (FASB) amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Mission is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In September 2020, the Financial Accounting Standards Board (FASB) issued ASU No. 2020-07 – *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which enhances presentation and disclosure requirements for not-for-profit entities that receive contributed nonfinancial assets. The main provisions require entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, and to disclose additional details including a disaggregation of the various types of contributed nonfinancial assets and whether those assets were monetized or utilized, among others. The amendments will be effective for fiscal years beginning after June 15, 2021. Early adoption is permitted. The Mission is currently evaluating the effect that implementation of the new standard will have on its financial statements.

Adoption of New Accounting Standards

The Mission has adopted Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*. This standard provides guidance on evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Analysis of the provisions of this standard resulted in no significant changes in the way the Mission recognizes contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

The Mission has adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, as management believes the standard improves the usefulness and understandability of the Mission’s financial reporting. Analysis of the provisions of this standard resulted in no significant changes in the way the Mission recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

The Mission has adopted Accounting Standards Update (ASU) No. 2016-18, Statement of Cash Flows: Restricted Cash (Topic 230). This standard provides guidance on the cash flow classification and presentation of changes in restricted cash and restricted cash equivalents. Analysis of the provisions of this standard resulted in no significant changes in the presentation of the Mission's cash flows.

Date of Management's Review

The Mission evaluated its September 30, 2020 consolidated financial statements for subsequent events through January 29, 2021, the date the consolidated financial statements were available to be issued. The Mission is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year of the statement of financial position date comprise the following:

Cash and cash equivalents	$ 3,859,849

The Mission's goal is generally to maintain financial assets to meet 90-180 days of operating expenses (approximately $980,000 to $1,960,000). As discussed in Note 11, certain assets are designated for specific purposes by the Board of Directors and are not included above.

NOTE 3 – 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. There have been no changes in the methodologies used at September 30, 2020:

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.

Certificates of deposit – Valued using a market value pricing model.

The following tables set forth by level, within the fair value hierarchy, the Mission's assets measured at fair value on a recurring basis at September 30:

	2020		
	Level 1	Level 2	Total
Investments			
Government bonds	$ -	$ 50,163	$ 50,163
Corporate bonds	-	187,970	187,970
Common stock	1,037,360	-	1,037,360
Total investments	$ 1,037,360	$ 238,133	$ 1,275,493

	2019		
	Level 1	Level 2	Total
Investments			
Government bonds	$ -	$ 600,174	$ 600,174
Corporate bonds	-	216,777	216,777
Certificates of deposit	-	41,012	41,012
Common stock	2,002,444	-	2,002,444
Total investments	$ 2,002,444	$ 857,963	$ 2,860,407

NOTE 4 – PROMISES TO GIVE

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

	2020	2019
Due in less than one year	$ 631,950	$ 1,101,452
Due in one to five years	775,000	1,800,335
Less unamortized discount	(88,498)	(198,551)
	$ 1,318,452	$ 2,703,236

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using discount rates ranging from 1.92% to 2.94%.

NOTE 5 – PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets at September 30, 2020 and 2019 consist of the following:

	2020	2019
Software licenses	$ 31,790	$ 42,369
Other assets	45,245	5,200
Direct mail expense and postage	82,768	72,301
Insurance	25,580	19,642
	$ 185,383	$ 139,512

NOTE 6 – NEW MARKET TAX CREDIT TRANSACTION AND NOTE RECEIVABLE

In December 2019, the Mission entered into a New Market Tax Credit (NMTC) financing transaction to partially fund the construction of the new Opportunity Center building. The NMTC program is designed to spur new or increased investments into operating businesses and real estate projects located in low-income communities by offering investors a federal tax credit in exchange for the investments. To earn the tax credit the NMTC Investor must remain invested for a seven-year period, which will end in 2026 for the Mission's project. The NMTCs were allocated in this transaction pursuant to Section 45D of the Internal Revenue Code (IRC).

As part of this financing arrangement, the Mission issued a $14,112,000 note receivable to COCRF Investor 152, LLC (the "Investor") (an unrelated entity affiliated with a financial institution). The note bears interest at 1.132% per annum and requires semi-annual interest-only payments of $79,874 until December 31, 2026; at which point semi-annual principal and interest payments of $378,463 will be due until maturity on December 31, 2047. The note is collateralized by a Fund Pledge Agreement which consists of security interests in the membership interests of three community development entities (CDEs), COCRF SubCDE 91, LLC, Hope New Markets 15, LLC, and Brownfield Revitalization 58, LLC.

Additionally, as part of this financing arrangement, the Investor made investments in the CDEs which in turn provided loans to the Mission totaling $19,520,000 (see Note 9). After the seven-year NMTC compliance period expires, it is anticipated that the loans will be discharged.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2020 and 2019 consist of the following major classifications:

	2020	2019
Land and improvements	$ 3,068,306	$ 3,068,306
Buildings and improvements	6,242,341	6,236,863
Furniture and fixtures	295,540	295,540
Automobiles and trucks	262,379	262,379
Machinery and equipment	551,255	545,183
Office equipment and software	225,099	225,099
Promotional film	7,250	7,250
Construction in progress	17,738,497	5,652,565
	28,390,667	16,293,185
Accumulated depreciation	(5,529,350)	(5,295,499)
	$ 22,861,317	$ 10,997,686

NOTE 8 – LINE OF CREDIT

The Mission has a $5,500,000 construction line of credit with a bank at a variable interest rate per annum equal to the Prime Rate minus 50 basis points, currently 2.75%. Interest-only payments are due monthly and beginning January 1, 2022, in additional to the interest payments, quarterly principal payments equal to one twenty-eighth of the balance will be due until maturity on January 1, 2026. There was an outstanding balance of $3,291,004 and $0 at September 30, 2020 and 2019, respectively. The line is secured by deposit and brokerage accounts and the note receivable.

The Mission is subject to certain restrictive debt covenant ratios for the line of credit. At September 30, 2020, the Mission was not aware of any non-compliance with such covenants.

NOTE 9 – NOTES PAYABLE

As described in Note 6, the Mission entered into a NMTC financing transaction to partially fund the construction of the new Opportunity Center building. As part of the financing transaction, the Mission entered into promissory note agreements with the CDEs totaling $19,520,000, with interest at 1.00% per annum. The notes require semi-annual interest-only payments ranging from $3,689 to $49,287 from December 2019 through December 2026, then semi-annual principal and interest payments ranging from $15,622 to $208,749, maturing on December 31, 2053. The notes are collateralized by a security interest in the property and building that is being constructed, through a deed of trust.

The loan and compliance agreements restrict the use of the funds to the Mission and its continued operation as a qualified low-income community business for the term of the notes. At September 30, 2020, the Mission was not aware of any non-compliance with such requirements.

The Mission obtained a loan through the Small Business Administration (SBA) Paycheck Protection Program (PPP loan) payable in monthly installments of $19,096 beginning in August 2021 plus interest at 1%, with a final payment due in July 2023. The PPP loan is eligible for loan forgiveness contingent upon incurring qualifying expenses, as discussed in Note 15.

Notes payable consisted of the following at September 30, 2020 and 2019:

	2020	2019
NMTC Loans		
Note payable - COCRF A	$ 2,052,300	$ -
Note payable - COCRF B	947,700	-
Note payable - Hope New Markets A	9,857,400	-
Note payable - Hope New Markets B	3,722,600	-
Note payable - Brownfield A	2,202,300	-
Note payable - Brownfield B	737,700	-
Total NMTC loans	19,520,000	-
SBA Paycheck Protection Program loan	339,349	-
	19,859,349	-
Less unamortized debt issuance costs	(527,935)	-
	$ 19,331,414	$ -

Principal maturities of notes payable are as follows for the years ending September 30:

2021	$ 28,279
2022	169,675
2023	141,395
2024	-
2025	-
Thereafter	19,520,000
	$ 19,859,349

NOTE 10 – COMMITMENTS

The Mission has entered into certain contracts related to the construction of the new Opportunity Center building still in progress at year-end. These contracts have unearned and unbilled amounts outstanding of approximately $4,457,000 at September 30, 2020.

NOTE 11 – BOARD-DESIGNATED NET ASSETS

Net assets were designated by the Board of Directors for the following purposes at September 30:

	2020	2019
Cash and Cash Equivalents		
Capital projects	$ 447,079	$ 3,291,855
Investments		
Operating reserve	732,255	551,374
Capital projects	-	1,685,941
Long-term purposes	543,238	623,092
	$ 1,722,572	$ 6,152,262

NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2020	2019
Purpose Restrictions		
Capital projects	$ -	$ 4,369,018
Other programs	-	30,110
	$ -	$ 4,399,128

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or other events specified by donors as follows for the years ended September 30:

	2020	2019
Satisfaction of Purpose Restrictions		
Capital projects	$ 4,670,111	$ 4,025,611
Other programs	30,110	89,091
	$ 4,700,221	$ 4,114,702

NOTE 13 – 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, 2020 and 2019.

NOTE 14 – RELATED PARTY TRANSACTIONS

The Mission purchased carpet totaling $0 and $6,347 for the years ended September 30, 2020 and 2019, respectively, from a company that is owned by a board member.

NOTE 15 – CONTINGENCIES

In January 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19), a pandemic, which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. As described in Note 9, the Mission obtained a loan in the amount of $339,349, through the Paycheck Protection Program administered by the U.S. Small Business Administration (SBA) to mitigate against any potential financial distress the pandemic could cause. The loan is forgivable as long as the Mission uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. While the Mission currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, it cannot be assured that actions will be taken that could cause the Mission to be ineligible for forgiveness of the loan, in whole or in part.

The outbreak could have a continued material adverse impact on economic and market conditions. The fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Mission, its performance, and its financial results.