

VALLEY MISSION, INCORPORATED
(A Nonprofit Corporation)
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

VALLEY MISSION, INCORPORATED

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AREHART ASSOCIATES LTD.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Valley Mission, Incorporated

We have audited the accompanying financial statements of Valley Mission, Incorporated (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets – modified cash basis as of December 31, 2018 and 2017, and the related statements of support, revenues, expenses and changes in net assets, functional expenses– modified cash basis and cash flows –modified cash basis for the years 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 financial statements in accordance with the modified cash basis of accounting as described in Note 1B; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Valley Mission, Incorporated as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with the modified cash basis of accounting as described in Note 1B.

Basis of Accounting

We draw attention to Note 1B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Arehart Associates, Ltd.

Arehart Associates, Ltd.
Waynesboro, VA
April 17, 2019

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash	\$ 295,278	\$ 167,315
TOTAL CURRENT ASSETS	<u>295,278</u>	<u>167,315</u>
PROPERTY AND EQUIPMENT		
Land	56,364	56,364
Building and Improvements	1,233,244	1,231,629
Leasehold Improvements	86,510	86,510
Equipment	187,752	182,278
Automobile Equipment	27,336	27,336
	<u>1,591,206</u>	<u>1,584,117</u>
Less: Accumulated depreciation	<u>(898,940)</u>	<u>(844,701)</u>
NET PROPERTY AND EQUIPMENT	<u>692,266</u>	<u>739,416</u>
OTHER ASSETS		
Security deposit - Thrift stores	18,749	18,749
Investments in marketable securities	727,944	829,278
TOTAL OTHER ASSETS	<u>746,693</u>	<u>848,027</u>
TOTAL ASSETS	<u>\$ 1,734,237</u>	<u>\$ 1,754,758</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Funds held for Mission residents	\$ 919	\$ 760
Other liabilities	1,186	1,154
Payroll liabilities	778	995
Sales taxes payable	2,694	2,864
TOTAL CURRENT LIABILITIES	<u>5,577</u>	<u>5,773</u>
TOTAL LIABILITIES	<u>5,577</u>	<u>5,773</u>
NET ASSETS		
Without Donor Restriction	1,207,385	1,248,035
Without Donor Restriction - Board designated trust funds	495,985	495,985
With Donor Restriction	25,290	4,965
TOTAL NET ASSETS	<u>1,728,660</u>	<u>1,748,985</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,734,237</u>	<u>\$ 1,754,758</u>

VALLEY MISSION, INCORPORATED
 STATEMENTS OF SUPPORT, REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS - MODIFIED CASH BASIS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018		
	WITHOUT DONOR RESTRICTION	WITH DONOR RESTRICTION	TOTAL
SUPPORT AND REVENUE			
Contributions	\$ 431,877	\$ 172,720	\$ 604,597
Thrift store sales	628,398	-	628,398
Other income	2,261	-	2,261
In Kind contributions	3,365	-	3,365
Special events	78,803	-	78,803
Investment income (loss)	(13,062)	-	(13,062)
	<u>1,131,642</u>	<u>172,720</u>	<u>1,304,362</u>
Net assets released from restrictions	<u>152,395</u>	<u>(152,395)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>1,284,037</u>	<u>20,325</u>	<u>1,304,362</u>
EXPENSES			
Program services	1,156,619	-	1,156,619
Supporting services:			
Fundraising	85,073	-	85,073
Management and general	82,995	-	82,995
	<u>1,324,687</u>	<u>-</u>	<u>1,324,687</u>
TOTAL EXPENSES	<u>1,324,687</u>	<u>-</u>	<u>1,324,687</u>
CHANGE IN NET ASSETS	<u>(40,650)</u>	<u>20,325</u>	<u>(20,325)</u>
Net assets, beginning of year	<u>1,744,020</u>	<u>4,965</u>	<u>1,748,985</u>
Net assets, end of year	<u>\$ 1,703,370</u>	<u>\$ 25,290</u>	<u>\$ 1,728,660</u>

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

	2017		
	WITHOUT DONOR RESTRICTION	WITH DONOR RESTRICTION	TOTAL
SUPPORT AND REVENUE			
Contributions	\$ 343,053	\$ 137,552	\$ 480,605
Thrift store sales	635,583	-	635,583
Other income	2,335	-	2,335
In Kind contributions	11,690	-	11,690
Special events	51,528	-	51,528
Investment income	79,627	-	79,627
	<u>1,123,816</u>	<u>137,552</u>	<u>1,261,368</u>
Net assets released from restrictions	<u>160,683</u>	<u>(160,683)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>1,284,499</u>	<u>(23,131)</u>	<u>1,261,368</u>
EXPENSES			
Program services	1,046,678	-	1,046,678
Supporting services:			
Fundraising	82,990	-	82,990
Management and general	253,183	-	253,183
	<u>1,382,851</u>	<u>-</u>	<u>1,382,851</u>
TOTAL EXPENSES	<u>1,382,851</u>	<u>-</u>	<u>1,382,851</u>
CHANGE IN NET ASSETS	<u>(98,352)</u>	<u>(23,131)</u>	<u>(121,483)</u>
Net assets, beginning of year	<u>1,842,372</u>	<u>28,096</u>	<u>1,870,468</u>
Net assets, end of year	<u>\$ 1,744,020</u>	<u>\$ 4,965</u>	<u>\$ 1,748,985</u>

VALLEY MISSION, INCORPORATED
 STATEMENTS OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2018

	<u>PROGRAM SERVICES</u>		<u>SUPPORTING SERVICES</u>		
	<u>Mission</u>	<u>Thrift Store</u>	<u>Fund Raising</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 414,327	\$ 226,608	\$ 41,027	\$ 56,749	\$ 738,711
Payroll taxes	34,492	19,094	3,080	4,927	61,593
Worker compensation	9,947	5,507	888	1,421	17,763
Retirement contribution	2,448	-	-	612	3,060
Group insurance	39,720	18,332	1,222	1,833	61,107
Administrative expenses	2,844	158	-	3,572	6,574
Advertising	2,105	-	-	-	2,105
Accounting services	-	-	-	10,865	10,865
Board expenses	-	-	-	15	15
Cleaning supplies	2,556	79	-	-	2,635
Communications	4,889	-	2,095	-	6,984
Computer Expenses	11,353	239	-	359	11,951
Credit card fees	940	12,086	403	-	13,429
Depreciation	45,686	6,605	273	1,675	54,239
Food/kitchen expenses	11,318	-	-	-	11,318
Insurance	6,908	384	-	384	7,676
Newsletter costs	-	-	11,252	-	11,252
Professional fees	8,872	522	522	522	10,438
Resident expenses	27,251	-	-	-	27,251
Office expense	5,155	303	546	61	6,065
Other expense	-	2,037	-	-	2,037
Repairs and maintenance	17,052	897	-	-	17,949
Special events	-	-	23,765	-	23,765
Store expenses	-	124,123	-	-	124,123
Vehicle expense	3,817	2,545	-	-	6,362
Utilities	59,794	25,626	-	-	85,420
	<u>\$ 711,474</u>	<u>\$ 445,145</u>	<u>\$ 85,073</u>	<u>\$ 82,995</u>	<u>\$ 1,324,687</u>

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

2017

	PROGRAM SERVICES		SUPPORTING SERVICES		Total
	Mission	Thrift Store	Fund Raising	Management and General	
Salaries and wages	\$ 462,461	\$ 57,669	\$ 41,652	\$ 224,890	\$ 786,672
Payroll taxes	44,264	21,078	1,405	3,513	70,260
Worker compensation	12,409	5,909	394	985	19,697
Retirement contribution	3,187	-	-	797	3,984
Group insurance	38,394	18,283	1,219	3,047	60,943
Administrative expenses	3,409	1,152	347	5,568	10,476
Advertising	172	-	-	-	172
Accounting services	-	-	-	10,705	10,705
Board expenses	-	-	-	12	12
Cleaning supplies	4,030	125	-	-	4,155
Communications	4,997	-	2,142	-	7,139
Computer Expenses	5,492	92	3,478	92	9,154
Credit card fees	753	14,168	151	-	15,072
Depreciation	46,343	7,648	310	1,812	56,113
Food/kitchen expenses	10,609	-	-	-	10,609
Development expenses	-	-	12,170	-	12,170
Insurance	8,660	481	-	481	9,622
Newsletter costs	-	-	7,910	-	7,910
Professional fees	8,301	519	519	1,038	10,377
Resident expenses	32,626	-	-	-	32,626
Office expense	5,749	338	609	68	6,764
Other expense	221	826	-	175	1,222
Repairs and maintenance	20,500	1,783	-	-	22,283
Special events	-	-	10,684	-	10,684
Store expenses	-	119,359	-	-	119,359
Vehicle expense	3,121	2,081	-	-	5,202
Utilities	55,628	23,841	-	-	79,469
	<u>\$ 771,326</u>	<u>\$ 275,352</u>	<u>\$ 82,990</u>	<u>\$ 253,183</u>	<u>\$ 1,382,851</u>

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

VALLEY MISSION, INCORPORATED
 STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (20,325)	(121,483)
Adjustments to reconcile change to cash provided by operating activities		
Depreciation	54,239	56,113
Loss (gains) on marketable securities	30,688	(53,622)
Loss on disposal of assets	-	3,600
Increase (Decrease) in sales and payroll tax liabilities	(357)	(1,389)
Increase (Decrease) in funds held for residents	159	(3,393)
	<u>64,404</u>	<u>(120,174)</u>
Net cash (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of marketable securities	(40,584)	(279,536)
Proceeds from sale of marketable securities	108,232	304,131
In-kind donation of fixed assets	(500)	(1,200)
Purchase of fixed assets	(3,589)	(62,102)
	<u>63,559</u>	<u>(38,707)</u>
Net cash provided by/ (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
Net cash used in financing activities		
	<u>-</u>	<u>-</u>
NET INCREASE/ (DECREASE) IN CASH	127,963	(158,881)
CASH, BEGINNING	<u>167,315</u>	<u>326,196</u>
CASH, ENDING	\$ <u><u>295,278</u></u>	\$ <u><u>167,315</u></u>

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

- A. Nature of Activities - The Mission is operated in Staunton, Virginia and is involved in providing clean, safe and sanitary housing for homeless people, nutritious meals to the hungry, food boxes for the hungry in the community, distributing clothing, linens, furniture and household items to the needy of the community, operating two thrift stores to provide funds for the Mission, providing counseling, emotional support, financial budgeting, friendship and spiritual support as needed, providing medical supplies, transportation, job counseling and help with housing to those living at the Mission, and providing non-denominational religious services to those staying at the Mission.
- B. Basis of Accounting – The financial statements are prepared on the modified cash basis of accounting; consequently, certain revenues are recognized when received rather than when earned; and certain expenses are recognized when cash is disbursed rather than when the obligation is incurred. The use of the modified cash basis of accounting is primarily due to the impracticality of recording in-kind donations and services given for the benefit of the Mission.
- C. Subsequent Events - Management has performed an analysis of the activities and transactions subsequent to December 31, 2018 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2018. Management has performed their analysis through April 17, 2019, which is the date the financial statements were available to be issued.
- D. Contributions received are recorded as net assets with donor restrictions of net assets without donor restrictions depending on the existence or nature of any donor restrictions. As of December 31, 2018, there was \$25,290 net assets with donor restrictions. For the year ended December 31, 2018, \$651 is to be used for resident housing support, \$23,139 mental health program, \$1,500 building improvements.
- E. Investments – Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of assets, liabilities and changes in net assets. Unrealized gains and losses are included in the change in net assets.
- F. Cash Equivalents - For purposes of the statement of cash flows, the Mission considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.
- G. Advertising - The Mission follows the policy of charging the costs of advertising to expense as incurred.
- H. Property and Equipment – Property and equipment is capitalized at cost. It is the Mission's policy to capitalize expenditures in excess of \$1,000. Buildings, improvements, leasehold improvements, equipment and vehicles are being depreciated over estimated lives using a straight-line method.
- I. Income Tax Status – Valley Mission, Incorporated is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509(a).

- J. Use of Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

2. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of support, revenues, expenses and changes in net assets. Accordingly, certain costs have been allocated between the programs and supporting services benefited. Certain expenses are allocated based upon the time spent by personnel or the square footage of areas used to carry out the functions.

3. INVESTMENTS AND INVESTMENT INCOME, AND BOARD-DESIGNATED NET ASSETS

Investments are stated at fair value and consist of the following types of investments:

	<u>2018</u>	<u>2017</u>
Equity securities	\$ 424,455	\$ 484,800
Debt securities	303,489	334,899
Foreign equity securities	<u>-</u>	<u>9,579</u>
Total investments	<u>\$ 727,944</u>	<u>\$ 829,278</u>

Investment income is derived entirely from investments reported at fair value. The following schedule summarizes the investment earnings for the year ended December 31, 2018 and 2017:

Net unrealized gains/losses	\$ (20,042)	\$ 56,159
Interest income	10,688	17,960
Dividend income	6,938	8,045
Net realized gains/losses	(10,646)	(2,537)
Less management fees	<u>(6,737)</u>	<u>(6,966)</u>
Net investment income	<u>\$ (19,799)</u>	<u>\$ 72,661</u>

Net assets shown as Without Donor Restrictions - Board Designated in the statement of assets, liabilities and net assets consist of a portion of the above fair value of the investments totaling \$495,985. The Board has deemed these funds held in reserve. Earnings are available for general operating expenses. These funds are held in a grantor trust managed by First Bank & Trust Company.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs that may be used to measure fair value are listed below:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS - continued

The fair values of debt and equity investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges or by quoted market prices of similar securities with similar due dates (or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities).

Certain equity type securities have observable inputs and market activity that allow for pricing based on the underlying market prices of the items in the fund.

The fair value for all investments held on December 31 were determined using quoted prices in active markets for identical assets, or level 1 within the fair value hierarchy of measurements.

The assets reported at fair value on a recurring basis using quoted market prices at December 31 are as follows:

		<u>FAIR VALUE</u>	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (<u>LEVEL 1</u>)
Marketable Securities	2018	\$727,944	\$727,944
Marketable Securities	2017	\$829,278	\$829,278

5. CONCENTRATIONS OF CREDIT RISK

The Mission does not have any bank deposits in excess of FDIC insurance.

6. VALUE OF VOLUNTEER SERVICE

There were an estimated 3,250 volunteers that provided 12,937 hours of service to the Mission in 2018. Based on the Bureau of Labor published rate of \$27.50 per hour, management estimates the value of volunteer services to be \$355,700.

7. LEASE OF RETAIL STORES

The Mission leases retail space in Staunton and Waynesboro for thrift stores. Lease expense was \$121,115 and \$116,944 for 2018 and 2017, respectively. The Waynesboro store lease is a 5 year term which began January 1, 2015. Annual rent for years 1 - 3 are \$63,700 and years 4 - 5 are \$68,250. The Staunton store lease was renewed for a 5 year term on February 16, 2016 with annual rent of \$52,865. Minimum future lease payments are as follows:

2019	\$ 121,115
2020	52,865
2021	<u>4,405</u>
Total	<u>\$ 178,385</u>