



**Winston-Salem Rescue Mission, Inc.**

**Financial Statements**

**Year Ended June 30, 2018**

**Winston-Salem Rescue Mission, Inc.**

**Year Ended June 30, 2018**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Winston-Salem Rescue Mission, Inc.

We have audited the accompanying financial statements of Winston-Salem Rescue Mission Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 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 financial position of Winston-Salem Rescue Mission, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited the Winston-Salem Rescue Mission, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Dennis Ashe, P.A.*

Greensboro, North Carolina  
November 7, 2018

Winston-Salem Rescue Mission, Inc.  
Statement of Financial Position  
June 30, 2018  
with Comparative Totals for 2017

	2018	2017
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 371,005	\$ 90,094
Inventory		
Thrift store inventory	7,278	8,536
Furniture and appliance inventory	30,020	39,598
Food and groceries inventory	145,768	139,497
Pledges receivable	20,000	-
Accounts receivable	5,628	3,806
Sales tax receivable	7,910	5,115
	587,609	286,646
Property and equipment, at cost, net of accumulated depreciation of \$2,232,624 and \$2,106,483	4,735,793	4,866,084
	5,323,402	5,152,730
	\$ 5,323,402	\$ 5,152,730
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 93,998	\$ 69,675
Current portion of long-term debt	153,266	152,760
Accrued salaries and wages	24,504	20,457
Accrued employee benefits and taxes	486	2
Sales tax payable	3,567	3,232
Deferred revenue	-	32,120
	275,821	278,246
Long-term debt	690,330	851,155
	966,151	1,129,401
	966,151	1,129,401
 Net assets:		
Unrestricted		
Net investment in property and equipment	4,735,793	4,866,084
Undesignated, available for general activities	(420,858)	(873,662)
Total unrestricted net assets	4,314,935	3,992,422
Temporarily restricted	42,316	30,907
	4,357,251	4,023,329
	4,357,251	4,023,329
Total liabilities and net assets	\$ 5,323,402	\$ 5,152,730
	\$ 5,323,402	\$ 5,152,730

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

Winston-Salem Rescue Mission, Inc.  
Statement of Activities  
For the Year Ended June 30, 2018  
with Comparative Totals for 2017

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018 Totals</u>	<u>2017 Totals</u>
Revenues, Gains and Other Support:				
Contributions	\$ 1,652,192	62,506	\$ 1,714,698	\$ 1,662,967
Donations in-kind (See Note 3)	1,219,355	-	1,219,355	1,211,788
Contributed goods and volunteer services	14,852	-	14,852	6,605
Sales to public:				
Sale of donated inventory	460,289	-	460,289	601,260
Sale of donated automobiles	1,874	-	1,874	1,718
Total sales to public	<u>462,163</u>	<u>-</u>	<u>462,163</u>	<u>602,978</u>
Fundraising events (net of expenses)	264,173	-	264,173	32,574
Program fees	65,907	-	65,907	65,393
Realized gain/(loss) on sale of assets	3,695	-	3,695	(1,025)
Other income	7,034	-	7,034	4,876
Insurance proceeds net of restoration expenses	162,460	-	162,460	-
Net assets released from restriction	<u>51,097</u>	<u>(51,097)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>3,902,928</u>	<u>11,409</u>	<u>3,914,337</u>	<u>3,586,156</u>
Functional Expenses				
Program services	3,189,827	-	3,189,827	3,143,347
Management and general	128,504	-	128,504	235,715
Fundraising	262,084	-	262,084	210,542
Total functional expenses	<u>3,580,415</u>	<u>-</u>	<u>3,580,415</u>	<u>3,589,604</u>
Change in net assets	322,513	11,409	333,922	(3,448)
Net assets - beginning of year	<u>3,992,422</u>	<u>30,907</u>	<u>4,023,329</u>	<u>4,026,777</u>
Net assets - end of year	<u>\$ 4,314,935</u>	<u>42,316</u>	<u>\$ 4,357,251</u>	<u>\$ 4,023,329</u>

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

Winston-Salem Rescue Mission, Inc.  
Statement of Functional Expenses  
For the Year Ended June 30, 2018  
with Comparative Totals for 2017

	Program Services	Management and General	Fundraising	2018 Totals	2017 Totals
Salaries	\$ 1,026,200	67,932	72,004	\$ 1,166,136	\$ 1,204,712
Employee benefits	21,149	2,135	749	24,033	29,890
Payroll taxes	74,442	4,643	5,508	84,593	86,397
Total salaries and related expenses	1,121,791	74,710	78,261	1,274,762	1,320,999
Bank fees	18,762	994	-	19,756	20,769
Bad debts	5	-	-	5	31
Computer expenses	35,531	1,937	-	37,468	27,760
Depreciation	167,503	8,816	-	176,319	179,984
Dues and subscriptions	5,542	305	-	5,847	6,027
Educational expenses	1,940	265	-	2,205	1,363
Farm expenses	4,309	139	-	4,448	3,585
Store resale and delivery expenses	10,168	-	-	10,168	7,579
Food	35,258	-	-	35,258	28,459
Client expenses - other	7,806	-	-	7,806	5,900
Fundraising - consultant and other	-	-	183,823	183,823	228,632
Gas and oil	22,458	1,182	-	23,640	20,808
Insurance	67,385	3,547	-	70,932	82,345
Interest	34,481	1,815	-	36,296	48,656
Kitchen expenses	18,544	383	-	18,927	11,278
Garbage disposal	20,209	1,064	-	21,273	23,346
Miscellaneous	-	-	-	-	4,293
Office supplies	12,567	661	-	13,228	12,011
Postage	10,545	555	-	11,100	20,466
Professional fees	-	14,900	-	14,900	15,600
Promotional expenses	35,116	-	-	35,116	25,047
Repairs and maintenance - facilities	70,896	3,731	-	74,627	44,489
Repairs and maintenance - vehicles	26,162	1,377	-	27,539	26,140
Repairs and maintenance - other	35,623	1,875	-	37,498	21,567
Staff expenses	2,413	329	-	2,742	3,960
Taxes and licenses	2,379	96	-	2,475	2,171
Travel	1,055	70	-	1,125	4,618
Utilities	163,029	8,581	-	171,610	164,422
Vehicle rentals and leases	22,278	1,172	-	23,450	-
	1,953,755	128,504	262,084	2,344,343	2,362,305
Non-cash distributions (See Note 3):					
Thrift store - merchandise	466,329	-	-	466,329	607,361
Distributions of food and clothing	757,591	-	-	757,591	613,333
Contributed services	12,152	-	-	12,152	6,605
	1,236,072	-	-	1,236,072	1,227,299
Total functional expenses	\$ 3,189,827	128,504	262,084	\$ 3,580,415	\$ 3,589,604
Functional expenses by percent	89%	4%	7%	100%	

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

Winston-Salem Rescue Mission, Inc.  
Statement of Cash Flows for the Year Ended June 30, 2018  
with Comparative Totals for 2017

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	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from donations	\$ 1,692,805	\$ 1,662,967
Store sales and other receipts	855,558	708,606
Interest and dividend income	5	3
Cash paid to suppliers and employees	(2,187,277)	(2,071,408)
Interest paid	<u>(36,296)</u>	<u>(48,656)</u>
Net cash provided (used) by operating activities	<u>324,795</u>	<u>251,512</u>
Cash flows from investing activities:		
Purchases of property and equipment	(46,025)	(15,567)
Net casualty claims	<u>162,460</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>116,435</u>	<u>(15,567)</u>
Cash flows from financing activities:		
Payments to reduce long-term debt	(160,319)	(158,406)
Payments to reduce line of credit	<u>-</u>	<u>(60,000)</u>
Net cash provided (used) by financing activities	<u>(160,319)</u>	<u>(218,406)</u>
Net increase (decrease) in cash	280,911	17,539
Cash at beginning of period	<u>90,094</u>	<u>72,555</u>
Cash at end of period	\$ <u><u>371,005</u></u>	\$ <u><u>90,094</u></u>
<u>Reconciliation of Decrease in Net Assets</u>		
<u>to Net Cash Provided (Used) by Operating Activities:</u>		
Increase (decrease) in net assets	\$ 333,922	\$ (3,448)
Adjustments:		
Depreciation	176,318	179,984
Net casualty claims	(162,460)	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Inventory	4,565	8,906
Accounts receivable	(1,823)	598
Pledges receivable	(20,000)	-
Sales tax receivable	(2,795)	(868)
Increase (decrease) in:		
Accounts payable	24,323	13,950
Accrued payroll	4,047	20,457
Accrued employee benefits and taxes	483	(284)
Sales tax payable	335	97
Unearned revenue	<u>(32,120)</u>	<u>32,120</u>
Net cash provided (used) by operating activities	\$ <u><u>324,795</u></u>	\$ <u><u>251,512</u></u>

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



Winston-Salem Rescue Mission, Inc.  
Notes to Financial Statements  
June 30, 2018

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Winston-Salem Rescue Mission, Inc. (the "Organization", "Mission") was formed on June 19, 1967 under the laws of the state of North Carolina. The Organization is a non-profit, non-denominational, Christian social service organization established as a response to the hundreds of homeless men wandering the streets of the Triad area of North Carolina seeking food, shelter, and spiritual help. Since 1967, the Mission has been actively involved in meeting the physical, spiritual, emotional, and social needs of destitute people. Through services and programs offered, the Organization is able to reach out and effectively enrich men's lives with nurturing and rehabilitative services. Services provided by the Mission include providing residents with shelter, food, clothing, and other programs. Such programs include Christian counseling and recovery sessions, work therapy and training, chapel services, and financial and life skills classes. The Mission also provides emergency food and clothing, as well as medical and dental clinics free of charge to other needy individuals in the Triad area. As approximately five percent of the Mission's clients are veterans, the Organization also provides special services to veterans, including visits as needed by a Veterans Affairs representative.

The Mission operates primarily on volunteer contributions. The vast majority of support comes from individual donors; the balance from churches, organizations, and businesses. In addition to cash donations, the Organization receives gifts-in-kind donations, including food, furniture, clothing, appliances, household items, and vehicles. While many of these items are given to the needy in the community, other donated items are sold in the Mission's thrift stores. The sale of vehicles and merchandise sold in the thrift stores provide income for the Mission as well as work therapy opportunities for the residents.

**Basis of Accounting**

The financial statements of the Mission have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and liabilities.

**Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ASC Topic 958, *Not-for-Profit Entities*. Under ASC Topic 958, the Organization 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.

Winston-Salem Rescue Mission, Inc.  
Notes to Financial Statements  
June 30, 2018

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements. Accordingly, actual results could differ from those estimates.

### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

### **Property and Equipment**

Property and equipment are stated at cost and have assigned lives ranging from three to forty years. Improvements and betterments are capitalized, while repairs and maintenance costs are expensed in the statement of activities. The Mission uses the straight-line method to record depreciation over the assets' useful lives. Estimated useful lives for various categories of property and equipment range between three and ten years, while buildings and improvements lives range between fifteen and forty years. Depreciation expense for the years ended June 30, 2018 and 2017 was \$176,319 and \$179,984, respectively.

### **Contributions**

Contributions are reported as unrestricted support unless the donor has restricted the donation to a particular program or fund. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending upon the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

### **Advertising**

Advertising costs are charged to operations when incurred. Advertising expense for the years ended June 30, 2018 and 2017 was \$22,512 and \$9,372, respectively.

### **Income Taxes**

The Organization is exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and is not a private foundation under Section 170(b)(1)(A)(vi). The Organization is also exempt from state income tax and, therefore, no provision for income tax has been made in the accompanying statement of activities. The Organization's federal *Return of Organization Exempt From Income Tax* (Form 990) for 2015 - 2018 are subject to examination by the IRS, generally for three years after they were filed.

Winston-Salem Rescue Mission, Inc.  
Notes to Financial Statements  
June 30, 2018

The Organization accounts for income taxes in accordance with ASC 740, *Accounting for Uncertainty in Income Taxes*. ASC 740 requires that a tax position be recognized or derecognized based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return where there is uncertainty about whether a tax position will ultimately be sustained upon examination.

The Organization has evaluated its tax positions and determined that it does not have any uncertain tax positions that meet the criteria under ASC 740. Accordingly, the provisions of ASC 740 did not have any impact on the accompanying financial statements.

### **Donated Goods and Services**

The Mission reports the fair value of gifts of donated food and grocery products over which it has control as unrestricted public support.

In addition, a number of individuals and organizations have made in-kind donations or volunteered their services to the Mission. For those services that do not require special expertise the estimated value of such donated services has not been recorded in the financial statements. In-kind donations and services for which fair value can be validated, which meet the criterion for recognition under ASC Topic 958 have been reflected in the financial statements at their fair value. Contributed goods and volunteer services amounted to \$14,852 for the year ended June 30, 2018 and \$6,605 for the year ended June 30, 2017.

### **Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon estimates developed by management. These expenses include cash and non-cash distributions (See Note 3).

## **2. CONCENTRATION OF RISK**

The Mission maintains deposits in a high quality financial institution that at times exceed the insured amounts of \$250,000 provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The excess amounts at June 30, 2018 were \$125,892. There were no cash deposits in excess of the limit insured by the Federal Deposit Insurance Corporation at June 30, 2017. The Mission believes it is not exposed to any significant credit risk to cash.

Winston-Salem Rescue Mission, Inc.  
Notes to Financial Statements  
June 30, 2018

### 3. INVENTORY AND DISTRIBUTIONS OF DONATED GOODS

The Mission recognized donations in kind and contributed services revenue of \$1,234,207 and \$1,218,393 for the years ended June 30, 2018 and 2017, respectively. The Mission recorded total program non-cash distributions in the statement of functional expense amounting to \$1,236,072 and \$1,227,299 for the years ended June 30, 2018 and 2017, respectively.

Inventory activity for the years ended June 30, 2018 and 2017 was as follows:

	<u>Thrift Store Operations</u>	<u>Food and Clothing</u>	<u>Totals</u>
Inventory at June 30, 2016	\$ 52,120	144,417	\$ 196,537
In-kind donations	603,375	608,413	1,211,788
Retail value of inventory, scrap and vehicles sold to customers	(607,361)	-	(607,361)
Distributions of food and clothing	<u>-</u>	<u>(613,333)</u>	<u>(613,333)</u>
Inventory at June 30, 2017	48,134	139,497	187,631
In-kind donations	455,493	763,862	1,219,355
Retail value of inventory, scrap and vehicles sold to customers	(466,329)	-	(466,329)
Distributions of food and clothing	<u>-</u>	<u>(757,591)</u>	<u>(757,591)</u>
Inventory at June 30, 2018	<u>\$ 37,298</u>	<u>145,768</u>	<u>\$ 183,066</u>

Non-cash program expense distributions presented in the statement of functional expenses for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Thrift Store	\$ 466,329	\$ 607,361
Donated food and clothing distribution	757,591	613,333
Contributed services	<u>12,152</u>	<u>6,605</u>
	<u>\$ 1,236,072</u>	<u>\$ 1,227,299</u>

Winston-Salem Rescue Mission, Inc.  
Notes to Financial Statements  
June 30, 2018

**4. PROPERTY AND EQUIPMENT**

Property and equipment was comprised of the following at June 30, 2018 and June 30, 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 536,645	\$ 536,645
Building	5,897,069	5,869,516
Machinery and equipment	224,062	229,850
Furniture and fixtures	183,532	183,532
Automotive and transportation equipment	<u>127,109</u>	<u>153,024</u>
Property and equipment	6,968,417	6,972,567
Less, accumulated depreciation	<u>(2,232,624)</u>	<u>(2,106,483)</u>
Property and equipment, net	<u>\$ 4,735,793</u>	<u>\$ 4,866,084</u>

**5. LINE OF CREDIT**

In addition to the debt described in Note 9, the Organization has one other available line of credit that provides for borrowing up to \$250,000 and bears a variable interest rate of prime plus .75 percent, 5.5 percent as of June 30, 2018. Payments of interest due on the outstanding balance are payable on a monthly basis. A second deed of trust on Winston-Salem Rescue Mission, Inc. property is assigned as collateral to the credit line and termination of the line is at the discretion of the Mission or the lender. There is also a one to one cash flow financial covenant on the credit line. There was not a balance outstanding for the years ended June 30, 2018 and 2017.

**6. PENSION PLAN**

The Organization has an Internal Revenue Code section 403(b) pension plan. Participation in the Plan is available on the first day of employment. Eligible employees elect to contribute a certain percentage of their salary to the plan. After 90 days of full-time service, the Mission matches 50% of employee contributions, up to a maximum matching contribution equal to 3% of their salary. For the years ended June 30, 2018 and 2017, the Mission's contributions to the 403(b) plan were \$8,808 and \$10,877, respectively.

Winston-Salem Rescue Mission, Inc.  
Notes to Financial Statements  
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**7. NET ASSET CLASSIFICATION**

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ 7,199	\$ 7,388
Christmas Gifts	220	220
Thrift Store Air Conditioner	-	4,200
CSAC Training Grant	21,394	18,578
Flex Spending Account	-	521
AA New Tractor Fund	10,000	-
AA Recreation	220	-
Mayor Arts Project Proposal	150	-
Wilcox Building Renovations	2,188	-
Kitchen Equipment	945	-
	<u>\$ 42,316</u>	<u>\$ 30,907</u>

**8. FAIR VALUE MEASUREMENTS**

The Organization's financial instruments are cash and cash equivalents, accounts payable, accrued expenses, and long-term debt. The recorded value of cash and cash equivalents, accounts payable, and accrued expenses approximate their fair values based on their short-term nature. Management believes that the recorded values of long-term debt approximate fair value, as they believe interest rates approximate market rates based upon consideration of the issuer, purpose and repayment terms of the instruments held. There are no assets or liabilities of the Organization that are reported at fair value on a recurring basis.

**9. LONG-TERM DEBT**

Long-term debt at June 30, 2018 and June 30, 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Note payable to First Citizens Bank, bearing interest at a fixed rate of 3.85 percent, with monthly installments of principal and interest of \$15,279 with the final installment due of all unpaid interest and principal on August 5, 2023. The note was secured by all land and improvements owned by the Mission except for Alpha Acres in Yadkinville, North Carolina.	\$ 843,596	\$ 990,897

Winston-Salem Rescue Mission, Inc.  
Notes to Financial Statements  
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Note payable to Nissan Motor Acceptance Corporation, bearing an annual interest rate of 2.99%, with monthly installments of principal and interest of \$467 with the final installment due of all unpaid interest and principal on December 5, 2019. The note was secured by a vehicle. The note was paid in full on February 12, 2018.	-	13,018
Total long-term debt	843,596	1,003,915
Less: current portion of long-term debt	153,266	152,760
Total long-term debt, less current portion	\$ 690,330	\$ 851,155

Scheduled principal maturities of long-term debt as of June 30, 2018 are as follows:

Year ending June 30,

2019	153,266
2020	159,272
2021	165,513
2022	171,999
2023	178,739
Thereafter	14,807
Total	\$ 843,596

## 10. RECLASSIFICATION

Certain amounts in the June 30, 2017 financial statements have been reclassified for comparative purposes to conform with the presentation in the June 30, 2018 financial statements.

## 11. CASUALTY LOSS AND DAMAGES

On July 20, 2017, a break in occurred in which a fire was intentionally set inside the thrift store. The fire along with water from the sprinkler system caused enough damage that the thrift store had to close operations to repair the damages. The Mission lost approximately \$1,500 to \$2,000 every day that the thrift store was closed. The thrift store reopened on October 28, 2017.

The Mission paid \$304,238 in expenses for restoration of the store. The Mission received \$466,698 from Berkley National Insurance Company for claims made. The amount in excess of restoration cost, which amounted to \$162,460, is a result of business income loss for the days the thrift store was closed. The resulting revenue from the insurance claim is shown as "Insurance proceeds net of restoration expenses" on the Statement of Activities.

Winston-Salem Rescue Mission, Inc.  
Notes to Financial Statements  
June 30, 2018

**12. SUBSEQUENT EVENTS**

The Organization has performed an evaluation of subsequent events through November 7, 2018, which is the date the financial statements were available to be issued.

**13. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958). This update is effective for fiscal periods beginning after December 15, 2017. Under the new standard, there will be two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) instead of the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted). The new standard requires all not-for-profit entities to provide expenses and an analysis of expenses by both nature and function, and disclosure of the methods used to allocate those expenses among the various functions. ASU 2016-14 requires qualitative disclosure about how liquidity is managed including dates to meet the cash needs for the upcoming year. Investment returns will be presented net of all related external and direct internal expenses and the existing disclosure of the netted amounts is no longer required. The standard continues to allow not-for-profit entities to present the net amount of operating cash flows using either the direct or indirect method of reporting, while no longer requiring the indirect reconciliation if the direct method is used.