

**Financial Statements**

**NEW MISSION SYSTEMS INTERNATIONAL, INC.**

**July 31, 2017 and 2016**

**NEW MISSION SYSTEMS INTERNATIONAL, INC.**

**Financial Statements**

**July 31, 2017 and 2016**

**(With Independent Auditor's Report Thereon)**

NEW MISSION SYSTEMS INTERNATIONAL, INC.

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## **Independent Auditor's Report**

The Board of Directors  
New Mission Systems International, Inc.

We have audited the accompanying financial statements of New Mission Systems International, Inc. (a nonprofit organization), which comprise the statements of financial position as of July 31, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses and cash flows 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 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 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 financial statements are free of 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 New Mission Systems International, Inc. as of July 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Schaefer, Tschanz, Whitcomb, Mitchell & Shuiler, LLP*

August 15, 2017

NEW MISSION SYSTEM INTERNATIONAL, INC.

**Statements of Financial Position**

July 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b><u>Assets</u></b>		
Cash and cash equivalents	\$ 300,208	317,617
Prepaid expenses	64,609	73,064
Property and equipment, net (notes 2 and 3)	<u>3,517,324</u>	<u>3,608,583</u>
Total assets	<u>\$ 3,882,141</u>	<u>3,999,264</u>
<b><u>Liabilities and Net Assets</u></b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 13,644	9,136
Note payable, less debt issuance costs (note 3)	<u>860,127</u>	<u>910,032</u>
Total liabilities	873,771	919,168
Unrestricted net assets	<u>3,008,370</u>	<u>3,080,096</u>
Total liabilities and net assets	<u>\$ 3,882,141</u>	<u>3,999,264</u>

See accompanying notes to financial statements.

NEW MISSION SYSTEMS INTERNATIONAL, INC.

**Statements of Activities and Changes in Net Assets**

Years ended July 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Unrestricted net assets:</b>		
Support and revenue:		
Contributions	\$ 6,927,751	6,441,244
Interest income	2,024	1,416
Rental income (note 6)	138,650	124,605
Grant	38,000	59,216
Sales and services	23,262	19,718
Other income	-	7,426
	<u>7,129,687</u>	<u>6,653,625</u>
Expenses:		
Program services	6,688,021	5,756,803
Management and general	290,494	371,880
Fund raising	222,898	288,248
	<u>7,201,413</u>	<u>6,416,931</u>
Change in net assets	(71,726)	236,694
Net assets, beginning of year	<u>3,080,096</u>	<u>2,843,402</u>
Net assets, end of year	<u><u>\$ 3,008,370</u></u>	<u><u>3,080,096</u></u>

See accompanying notes to financial statements.

NEW MISSION SYSTEMS INTERNATIONAL, INC.

Statement of Functional Expenses

Year ended July 31, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Personnel expenses:				
Payroll	\$ 1,780,999	112,989	42,407	1,936,395
Employee benefits	405,952	25,754	9,667	441,373
Housing allowance	633,155	40,168	15,076	688,399
Total personnel expenses	2,820,106	178,911	67,150	3,066,167
Other expenses:				
Depreciation	175,037	11,105	4,167	190,309
Education	136,085	-	-	136,085
Conference	48,647	-	-	48,647
Insurance	39,860	2,529	949	43,338
Interest	18,638	18,638	-	37,276
Mission projects	2,940,886	-	-	2,940,886
Building materials	253,811	-	-	253,811
Occupancy	90,873	27,020	-	117,893
Office supplies	54,219	18,073	-	72,292
Postage	13,044	8,695	-	21,739
Printing	14,222	9,481	-	23,703
Professional fees	17,080	5,694	-	22,774
Recruiting	39,523	-	-	39,523
Bank fees	21,731	7,243	-	28,974
Telephone	3,461	2,308	-	5,769
Supporter relationships	-	-	150,632	150,632
Noncash interest expense	798	797	-	1,595
Total expenses	<u>\$ 6,688,021</u>	<u>290,494</u>	<u>222,898</u>	<u>7,201,413</u>

See accompanying notes to financial statements.



NEW MISSION SYSTEMS INTERNATIONAL, INC.

Statement of Functional Expenses

Year ended July 31, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Personnel expenses:				
Payroll	\$ 1,536,499	153,280	68,028	1,757,807
Employee benefits	451,291	45,021	19,980	516,292
Housing allowance	531,142	52,987	23,516	607,645
Total personnel expenses	2,518,932	251,288	111,524	2,881,744
Other expenses:				
Depreciation	142,317	9,594	7,996	159,907
Education	91,447	-	-	91,447
Conference	41,311	-	-	41,311
Insurance	78,433	7,824	3,473	89,730
Interest	19,995	19,995	-	39,990
Mission projects	2,497,408	-	-	2,497,408
Building materials	95,174	-	-	95,174
Occupancy	111,014	32,283	-	143,297
Office supplies	41,169	13,723	-	54,892
Postage	14,718	9,811	-	24,529
Printing	14,427	9,618	-	24,045
Professional fees	32,417	10,806	-	43,223
Recruiting	37,992	-	-	37,992
Bank fees	15,925	5,309	-	21,234
Telephone	2,444	1,629	-	4,073
Supporter relationships	-	-	165,255	165,255
Miscellaneous	1,680	-	-	1,680
Total expenses	<u>\$ 5,756,803</u>	<u>371,880</u>	<u>288,248</u>	<u>6,416,931</u>

See accompanying notes to financial statements.

NEW MISSION SYSTEMS INTERNATIONAL, INC.

**Statements of Cash Flows**

Years ended July 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (71,726)	236,694
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	190,309	158,312
Non-cash interest expense	1,595	1,595
Change in operating assets and liabilities:		
Prepaid expenses	8,455	11,223
Accounts payable and accrued expenses	4,508	1,350
Net cash provided by operating activities	<u>133,141</u>	<u>409,174</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(99,050)</u>	<u>(191,304)</u>
Net cash used in investing activities	<u>(99,050)</u>	<u>(191,304)</u>
Cash flows from financing activities:		
Payments on note payable	<u>(51,500)</u>	<u>(54,310)</u>
Net cash used in financing activities	<u>(51,500)</u>	<u>(54,310)</u>
Net change in cash and cash equivalents	(17,409)	163,560
Cash and cash equivalents at beginning of year	<u>317,617</u>	<u>154,057</u>
Cash and cash equivalents at end of year	<u>\$ 300,208</u>	<u>317,617</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 37,276</u>	<u>\$ 39,990</u>

See accompanying notes to financial statements.

NEW MISSION SYSTEMS INTERNATIONAL, INC.

Notes to Financial Statements

July 31, 2017 and 2016

(1) **Organization and Summary of Significant Accounting Policies**

(a) **Organization**

New Mission Systems International, Inc. (Organization) exists to foster the emergence of Jesus following communities globally. Founded in 1989, its vision is to support and place individuals in fields of service to minister to people of all nations. The Organization's activities consist of recruiting, providing training and support and placing missionaries in the field both in the United States and foreign countries

The Organization's employees are responsible for raising their own funds through contributions from churches and individuals. Ten percent (10%) of the total funds raised is applied to cover administration costs and the remainder is maintained to cover the missionary and ministry expenses of the originating individual.

The Organization maintains a publications department that occasionally provides services to other 501(c)(3) religious charities and churches in addition to printing the materials of the Organization.

(b) **Basis of Accounting**

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

(c) **Financial Statement Presentation**

The Organization reports 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.

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

NEW MISSION SYSTEMS INTERNATIONAL, INC.

Notes to Financial Statements

July 31, 2017 and 2016

(1) **Organization and Summary of Significant Accounting Policies (Continued)**

(c) **Financial Statement Presentation (Continued)**

- ◆ Unrestricted net assets---Net assets that are not subject to donor-imposed stipulations.
- ◆ Temporarily restricted net assets---Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- ◆ Permanently restricted net assets---Net assets subject to donor-imposed stipulations that will be maintained permanently by the Organization. Donors of these assets permit the Organization to use all, or part of, the earnings on related investments for general or specific purposes.

(d) **Cash and Cash Equivalents**

For purposes of reporting cash flows, the Organization considers investments purchased with original maturities of three months or less to be cash equivalents.

Financial instruments which potentially subject the Organization to concentration of credit risk consist principally of cash and short-term investments. The Organization places its cash and investments with local financial institutions. At certain times throughout the year, cash and investments may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization management believes it is not exposed to any significant credit risk on cash and temporary cash investments.

(e) **Investments**

Investments are carried at fair market value, which is based upon quoted market prices. Realized and unrealized gains and losses are included in the statement of activities.

NEW MISSION SYSTEMS INTERNATIONAL, INC.

Notes to Financial Statements

July 31, 2017 and 2016

(1) **Organization and Summary of Significant Accounting Policies (Continued)**

(f) **Promises to Give**

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

(g) **Deferred Loan Costs**

Deferred loan costs of \$23,895 for the years ending July 31, 2017 and 2016 are being amortized utilizing a method that approximates the effective interest rate method over the term of the mortgage bonds payable.

The net book value of the deferred loan costs are presented in the statements of financial position as a reduction in the carrying amount of the associated liability. The amortization expense associated with the deferred loan costs is reflected as noncash interest expense on the accompanying statements of operations and cash flows. As of July 31, 2017 and 2016, accumulated noncash interest expense related to the deferred loan costs totaled \$4,785 and \$3,190, respectively.

(h) **Property and Equipment**

Buildings and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line or declining balance method. Currently the Organization capitalizes all fixed asset additions with a life greater than one year and a cost in excess of \$1,500. Certain property and equipment over \$1,500 is not capitalized as a function of a foreign ruling government's policy related to rights of ownership. In cases where clear title and ownership are encumbered by such policies these acquisitions are expensed.

(i) **Land**

Land purchased by the Organization is stated at cost. Donated land is stated at fair market value at the date of gift or at tax assessed value when the fair value is not reasonably obtainable.

NEW MISSION SYSTEMS INTERNATIONAL, INC.

**Notes to Financial Statements**

July 31, 2017 and 2016

**(1) Organization and Summary of Significant Accounting Policies (Continued)**

**(j) Donated Assets**

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair value at the date of donation.

**(k) Contributions**

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

**(l) Income Tax Status**

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It qualifies for the charitable contribution deduction under Section 701(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

In accordance with "Income Taxes" FASB Accounting Standards Codification Topic 740 (Topic 740), all entities are required to evaluate and disclose income tax risks. Topic 740 clarifies the accounting for uncertainty in tax positions and prescribes guidance related to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is only recognized in the statements of financial position if the tax position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties, if any, are included in expenses in the statements of activities and changes in net assets. As of July 31, 2017, the Organization had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

The Organization's income tax returns are subject to review and examination by federal authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status. The Organization is not aware of any activities that are subject to tax on unrelated business income, excise or other taxes. The tax returns for the fiscal years ended from 2014 to 2016 are open to examination by federal authorities.

NEW MISSION SYSTEMS INTERNATIONAL, INC.

Notes to Financial Statements

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(1) Organization and Summary of Significant Accounting Policies (Continued)

(m) Financial Instruments Fair Value, Concentration of Business and Credit Risks

The carrying amounts reported in the balance sheet for cash and cash equivalents, accounts payable and accrued expenses, and note payable approximate fair value because of the immediate or short-term maturity of these financial instruments, or they carry interest rates substantially similar to current rates offered on similar instruments.

(n) Estimates

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

(o) Subsequent Events

In preparing these financial statements, the Organization has evaluated subsequent events and transactions for potential recognition and disclosure through August 15, 2017, which is the date the financial statements were available to be issued.

(2) Property and Equipment

Property, equipment and related accumulated depreciation consist of the following at July 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 501,573	501,573
Buildings	3,457,197	3,435,347
Equipment	385,675	353,675
Furniture	38,963	38,963
Vehicles	493,246	456,744
Leasehold improvements	5,920	5,920
	<u>4,882,574</u>	<u>4,792,222</u>
Less: accumulated depreciation	<u>(1,365,250)</u>	<u>(1,183,639)</u>
	<u>\$ 3,517,324</u>	<u>3,608,583</u>

NEW MISSION SYSTEMS INTERNATIONAL, INC.

Notes to Financial Statements

July 31, 2017 and 2016

(3) Note Payable

Note payable consists of the following at July 31:

	<u>2017</u>	<u>2016</u>
Loan payable to bank with original borrowings of \$990,000; interest bearing at 4.0%, due in monthly payments of \$7,316 including interest through February 2030.	\$ 879,237	930,737

The unamortized loan costs which are shown as a reduction of the notes payable at July 31, 2017 and 2016 were \$19,110 and \$20,705, respectively.

Future maturities of note payable are as follows:

<u>Year ended July 31,</u>	
2018	\$ 54,152
2019	56,357
2020	58,656
2021	61,043
2022	63,530
Thereafter	585,499
	<u>\$ 879,237</u>

(4) Line of Credit

The Organization has a line of credit arrangement, due on demand, under which it may borrow up to \$250,000 from time to time with interest at the lender's prime rate. The line of credit is collateralized by a security interest in certain land and buildings of the Organization. The entire amount of the line was available at July 31, 2017.

(5) Retirement Plan

The Organization permits every employee to participate in an individually owned 403(b) plan (Plan). Employees may elect to defer a portion of salary up to \$18,500 per calendar year, with an additional \$5,000 if they have attained age 50 by the end of the calendar year (limits indexed annually). These voluntary deferral amounts reduce the employee salary and are deposited by the employer into the individual's 403(b) account. Deposits are invested at the direction of the employee. There were no contributions to the Plan by the Organization in 2017 or 2016.



NEW MISSION SYSTEMS INTERNATIONAL, INC.

**Notes to Financial Statements**

July 31, 2017 and 2016

**(6) Leases**

The Organization leases space in its main office location to other non related parties. Total lease income for the year ended July 31, 2017 and 2016 amounted to \$138,650 and \$124,605, respectively.

Future lease payments expected to be received under these lease agreements are as follows:

<u>Year ended July 31,</u>	
2018	\$ 121,729
2019	86,622
2020	67,350
2021	46,650
2022	34,450
Thereafter	86,100