



LOS ANGELES MISSION, INC.

FINANCIAL STATEMENTS
With Independent Auditors' Report

June 30, 2010 and 2009

LOS ANGELES MISSION, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Los Angeles Mission, Inc.
Los Angeles, California

We have audited the accompanying statements of financial position of Los Angeles Mission, Inc., as of June 30, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Los Angeles Mission, Inc. as of June 30, 2010 and 2009, and the results of its activities, functional expenses, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Brea, California
September 27, 2010

LOS ANGELES MISSION, INC.

Statements of Financial Position

	June 30,	
	2010	2009
ASSETS:		
Cash and cash equivalents	\$ 86,119	\$ 262,582
Investments	770,279	785,410
Accounts and other receivables	133,128	11,704
Grant receivable	1,000,000	-
Estate and trust receivables	530,000	881,360
Note receivable	-	4,420
Prepaid expenses	88,335	125,693
Gifts-in-kind inventory	108,743	192,043
Property held for sale	24,041	24,041
Beneficial interest in trust held by others	472,709	127,544
Land, buildings, and equipment - net	23,638,355	24,218,699
	<u>\$ 26,851,709</u>	<u>\$ 26,633,496</u>
LIABILITIES AND NET ASSETS:		
Accounts payable	\$ 334,783	\$ 310,691
Accrued expenses	693,404	563,506
Amounts held for others	68,516	70,231
Capital lease payable	49,713	77,340
Notes payable	3,824,578	3,966,666
Derivative	379,376	321,914
	<u>5,350,370</u>	<u>5,310,348</u>
Net assets:		
Unrestricted:		
Undesignated	(310,213)	208,505
Net investment in land, buildings, and equipment	19,764,064	20,174,693
	<u>19,453,851</u>	<u>20,383,198</u>
Temporarily restricted	1,518,142	420,604
Permanently restricted	529,346	519,346
Total net assets	<u>21,501,339</u>	<u>21,323,148</u>
Total Liabilities and Net Assets	<u>\$ 26,851,709</u>	<u>\$ 26,633,496</u>

See notes to financial statements

LOS ANGELES MISSION, INC.

Statements of Activities

	Year Ended June 30, 2010				Year Ended June 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING:								
SUPPORT, REVENUE, AND RECLASSIFICATIONS:								
Contributions	\$ 10,965,957	\$ 2,087,533	\$ 10,000	\$ 13,063,490	\$ 11,485,352	\$ 1,319,029	\$ -	\$ 12,804,381
Gifts-in-kind activity	1,173,462	-	-	1,173,462	771,903	-	-	771,903
Investment income	3,078	(15,130)	-	(12,052)	20,254	(18,884)	-	1,370
Sales	49,970	-	-	49,970	57,535	-	-	57,535
Other revenue	222,877	-	-	222,877	399,094	-	-	399,094
Net assets released from restrictions:								
Satisfaction of donor restrictions	974,865	(974,865)	-	-	1,448,349	(1,448,349)	-	-
Total Support, Revenue, and Reclassifications	<u>13,390,209</u>	<u>1,097,538</u>	<u>10,000</u>	<u>14,497,747</u>	<u>14,182,487</u>	<u>(148,204)</u>	<u>-</u>	<u>14,034,283</u>
EXPENSES:								
Program ministries	<u>8,990,588</u>	<u>-</u>	<u>-</u>	<u>8,990,588</u>	<u>8,809,461</u>	<u>-</u>	<u>-</u>	<u>8,809,461</u>
Supporting activities:								
General and administrative	1,106,225	-	-	1,106,225	1,079,861	-	-	1,079,861
Fundraising	<u>4,165,283</u>	<u>-</u>	<u>-</u>	<u>4,165,283</u>	<u>3,898,961</u>	<u>-</u>	<u>-</u>	<u>3,898,961</u>
	<u>5,271,507</u>	<u>-</u>	<u>-</u>	<u>5,271,507</u>	<u>4,978,822</u>	<u>-</u>	<u>-</u>	<u>4,978,822</u>
Total Expenses	<u>14,262,095</u>	<u>-</u>	<u>-</u>	<u>14,262,095</u>	<u>13,788,283</u>	<u>-</u>	<u>-</u>	<u>13,788,283</u>
Change in Net Assets from Operations	(871,886)	1,097,538	10,000	235,652	394,204	(148,204)	-	246,000
NON-OPERATING:								
Derivative Impact on Interest Expense	<u>(57,461)</u>	<u>-</u>	<u>-</u>	<u>(57,461)</u>	<u>(188,370)</u>	<u>-</u>	<u>-</u>	<u>(188,370)</u>
Change in Net Assets	(929,347)	1,097,538	10,000	178,191	205,834	(148,204)	-	57,630
Net Assets, Beginning of Year	<u>20,383,198</u>	<u>420,604</u>	<u>519,346</u>	<u>21,323,148</u>	<u>20,177,364</u>	<u>568,808</u>	<u>519,346</u>	<u>21,265,518</u>
Net Assets, End of Year	<u>\$ 19,453,851</u>	<u>\$ 1,518,142</u>	<u>\$ 529,346</u>	<u>\$ 21,501,339</u>	<u>\$ 20,383,198</u>	<u>\$ 420,604</u>	<u>\$ 519,346</u>	<u>\$ 21,323,148</u>

See notes to financial statements

LOS ANGELES MISSION, INC.

Statements of Functional Expenses

	Year Ended June 30, 2010				Year Ended June 30, 2009			
	Program Ministries	Support Activities		Total	Program Ministries	Support Activities		Total
		General and Administrative	Fundraising			General and Administrative	Fundraising	
Salaries and wages	\$ 3,156,962	\$ 522,211	\$ 642,472	\$ 4,321,645	\$ 3,198,695	\$ 571,833	\$ 509,302	\$ 4,279,830
Donor appeals fundraising costs	-	-	1,626,179	1,626,179	-	-	1,710,850	1,710,850
Donor acquisition fundraising costs	-	-	1,356,919	1,356,919	-	-	1,282,889	1,282,889
Depreciation	1,137,358	21,358	9,465	1,168,181	1,148,740	21,030	9,625	1,179,395
Employee benefits	720,217	152,635	160,878	1,033,729	745,176	164,414	127,907	1,037,497
Gift in kind clothing, food, and other	1,256,760	-	-	1,256,760	729,591	-	-	729,591
Utilities	535,082	9,388	4,694	549,164	556,014	9,839	4,919	570,772
Health center support	258,956	-	-	258,956	398,956	-	-	398,956
Professional services	70,946	147,341	213,962	432,249	62,606	150,775	165,154	378,535
Repairs and maintenance	352,240	3,893	2,151	358,285	340,744	7,268	3,044	351,056
Shelter and rehab program costs	289,364	-	-	289,364	305,712	-	-	305,712
Interest	252,321	4,887	2,444	259,652	251,712	5,068	2,534	259,314
Occupancy	249,627	2,500	862	252,989	240,730	2,230	1,057	244,017
Office expenses	139,609	164,171	65,728	369,509	104,212	84,722	52,926	241,860
Shelter and rehab food costs	213,003	-	-	213,003	226,915	-	-	226,915
Insurance	105,715	50,065	511	156,291	116,473	40,465	640	157,578
Bad debt	4,248	4,420	-	8,668	144,715	-	-	144,715
Other expenses	101,392	8,648	62,947	172,987	77,387	14,033	12,200	103,620
Telecommunication	75,316	2,073	6,958	84,346	67,577	1,168	5,549	74,294
Trucks and vans operating costs	57,668	-	-	57,668	74,172	-	-	74,172
Conferences, memberships, and dues	13,805	12,633	9,111	35,550	19,334	7,016	10,365	36,715
Total	\$ 8,990,588	\$ 1,106,225	\$ 4,165,283	\$ 14,262,095	\$ 8,809,461	\$ 1,079,861	\$ 3,898,961	\$ 13,788,283

See notes to financial statements

LOS ANGELES MISSION, INC.

Statements of Cash Flows

	Year Ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 178,191	\$ 57,630
Reconciliation of change in net assets to net cash provided by operating activities:		
Depreciation	1,168,181	1,172,921
Write-off of note receivable	4,420	143,428
Net realized and unrealized loss on investments	30,757	33,608
Non-cash gifts	-	(989)
Derivative	57,462	188,370
Net change in:		
Accounts and other receivables	(121,424)	31,038
Grant receivable	(1,000,000)	750,000
Estate and trusts receivables	351,360	(486,272)
Prepaid expenses	37,358	(92,286)
Gift-in-kind inventory	83,300	(41,793)
Beneficial interest in trust held by others	(345,165)	(71,546)
Accounts payable	24,092	66,952
Accrued expenses	129,898	(97,035)
Amounts held for others	(1,715)	1,736
Net Cash Provided by Operating Activities	596,715	1,655,762
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(1,571,317)	(14,689)
Proceeds from sale of investments	1,555,691	953
Purchases of fixed assets	(524,439)	(1,946,065)
Net Cash Used in Investing Activities	(540,065)	(1,959,801)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from new notes payable	1,000,000	-
Payments on capital lease	(27,627)	(25,642)
Payments on notes payable	(1,205,486)	(295,184)
Net Cash Used in Financing Activities	(233,113)	(320,826)
Net Change in Cash and Cash Equivalents	(176,463)	(624,865)
Cash and Cash Equivalents, Beginning of Year	262,582	887,447
Cash and Cash Equivalents, End of Year	\$ 86,119	\$ 262,582
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest (none capitalized)	\$ 260,517	\$ 262,071
Non-cash refinancing of line of credit	\$ -	\$ 500,000
Assets acquired through non-cash transactions	\$ 63,398	\$ -

See notes to financial statements

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

1. NATURE OF ORGANIZATION:

Los Angeles Mission, Inc. (the Mission) is a Christian nonprofit organization incorporated in California. The Mission has been in existence since 1936 with the objective of providing hope and opportunity to destitute men, women, and children through spiritual, physical, educational, and social rehabilitation.

The Mission is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and is also exempt from state income taxes. The primary source of revenue is contributions by the public which are deductible for income tax purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Mission have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies adopted by the Mission are described below.

CASH AND CASH EQUIVALENTS

For statements of financial position and cash flow purposes, cash and cash equivalents consist primarily of cash on hand, cash on deposit, commercial paper, and certificates of deposit with a maturity of less than ninety days. These accounts may, at times, exceed federally insured limits. The Mission has not experienced any losses on these accounts.

INVESTMENTS

Investments include mutual funds and common stock securities. Investments are carried at market value. Donated securities are recorded at market value on the date of the gift and are thereafter carried in accordance with the above provisions. The investments are reported at fair value based upon quoted prices in active markets for identical assets, which is Level 1 of the fair value hierarchy established under the Fair Value topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC)

ESTATE AND TRUST RECEIVABLES

The Mission has been named as a beneficiary of certain estates and trusts that have matured as a result of the death of the donors. The amount recorded represents the estimated realizable value of the proceeds from the various estates and trusts.

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

BENEFICIAL INTEREST IN TRUST HELD BY OTHERS

Beneficial interest in trust held by others consists of the Mission's share of a trusts held by an outside trustee. The trusts are time restricted, established as part of split interest agreements. Under the terms of one trust, the Mission has an irrevocable right to receive the income earned from their share of the trust assets for a period of twenty years after the trustors' deaths. The distribution from this trust began in 2008. At the end of this twenty year period, the trust will be terminated and a portion of the assets will be distributed to the Mission. At the time of the trust's termination, the time restriction will end and the net assets will be reclassified from temporarily restricted net assets to unrestricted net assets since no restrictions were stated on the use of the trust assets. Also, no restrictions were stated on the use of the income, so periodic income distributions are classified as unrestricted investment income.

Under the terms of the second trust, the Mission is a residual beneficiary of an irrevocable charitable remainder annuity trust upon the death of the lifetime annuitant. Upon termination, the time restriction will end and the net assets will be reclassified from temporarily restricted net assets to unrestricted net assets since no restrictions were stated on the use of the trust assets.

GIFTS-IN-KIND INVENTORY

The Mission receives donations of clothing, food, toiletries, blankets, and other items for use in the operations of the Mission programs. These gifts-in-kind are stated at their estimated fair market values (equivalent of thrift shop values) at the date of the gifts.

LAND, BUILDINGS, AND EQUIPMENT

Expenditures of \$1,000 or more for land, buildings, and equipment are capitalized at cost. Donated items are recorded at fair market value on the date of the gift. Depreciation is computed on the straight line method over the estimated useful lives of the assets ranging from three to thirty years. Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions must specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Mission reports expirations of donor restrictions as unrestricted net assets when the donated or acquired long-lived assets are placed in service.

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

NET ASSETS

The financial statements report amounts by classification of net assets as follows:

Unrestricted net assets are those currently available at the discretion of the board for use in the Mission's operations and those resources invested in land, buildings, and equipment.

Temporarily restricted net assets are those which are stipulated by donors for specific programs, capital projects, time restrictions, and endowment earnings.

Permanently restricted net assets are those which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available as unrestricted or temporarily restricted, as specified in endowment agreements. Permanently restricted net assets consist of the Exodus Fund, which was established to help patrons who successfully complete the Mission's rehabilitation program in settling once again into society's mainstream. Each year, all or part of the investment income from the Exodus Fund is to be made available to use for this purpose.

All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to legal restrictions.

Contributions are recorded as temporarily restricted if they are received with donor stipulations that limit their use through purpose and/or time restrictions. When donor restrictions expire, that is when the purpose restriction is fulfilled or the time restriction expires, the net assets are reclassified from temporarily restricted to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT, REVENUE, AND EXPENSES

Contributions are recorded when cash or unconditional promises-to-give have been received, or ownership of donated assets is transferred to the Mission. Conditional promises-to-give are recognized as revenue when the conditions on which they depend are substantially met. The Mission receives gifts-in-kind, which are recorded as support at the estimated fair market value on the date of the gift. See Note 11 for additional information on these items. Goods given to the Mission that do not have an objective basis for valuation are not recorded.

Revenue is recorded when earned. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

CONTRIBUTED SERVICES

The Contributions topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), requires recording the value of donated services that create or enhance non-financial assets or require specialized skills. Many volunteers have contributed significant amounts of their time to activities of the organization; however, since the above requirements were not met, the value of the contributed services is not recorded in the financial statements.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis. Accordingly, certain costs, such as depreciation and payroll, have been allocated among the program and supporting activities.

ALLOCATION OF JOINT COSTS

The Mission has adopted the provisions of the Joint Cost topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). This statement requires all costs which contain any fundraising appeal to be allocated to fundraising unless all of the following three tests are met: purpose, audience, and content. Since all three tests were not met, all costs have been allocated to fundraising for the years ended June 30, 2010 and 2009.

USE OF ESTIMATES

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

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

3. INVESTMENTS:

	June 30,	
	2010	2009
Investment income consists of:		
Interest and dividends	\$ 14,705	\$ 14,688
Interest from cash and cash equivalents	4,000	20,290
Realized and unrealized losses on investments	(30,757)	(33,608)
	<u>\$ (12,052)</u>	<u>\$ 1,370</u>

4. NOTE RECEIVABLE:

Note receivable consists of:

	June 30,	
	2010	2009
Note receivable from a company, secured by property, due in monthly payments of \$773, including interest at 7%, through August 2009.	\$ -	\$ 8,811
Less allowance for doubtful accounts	-	(4,391)
	<u>\$ -</u>	<u>\$ 4,420</u>

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

5. LAND, BUILDINGS, AND EQUIPMENT - NET:

Land, buildings, and equipment - net consist of:

	June 30,	
	2010	2009
Land	\$ 3,868,607	\$ 3,868,607
Buildings and improvements	32,404,733	32,223,933
Furniture and equipment	5,497,509	5,319,187
Vehicles	463,086	395,787
Land, buildings, and equipment - at cost	42,233,935	41,807,514
Less accumulated depreciation	(18,749,033)	(17,588,815)
	23,484,902	24,218,699
Construction in process	153,453	-
Land, buildings, and equipment - net	23,638,355	24,218,699
Less debt secured by land, buildings, and equipment	(3,874,291)	(4,044,006)
Net investment in land, buildings, and equipment	\$ 19,764,064	\$ 20,174,693

6. CAPITAL LEASE PAYABLE:

Capital lease payable consists of:

	June 30,	
	2010	2009
Capital lease, secured by vehicles, with interest at 7.43%. Total monthly payments of \$2,707 until February 2012.	\$ 49,713	\$ 77,340

The annual capital lease payments are as follows:

Years Ending June 30,	
2011	\$ 29,751
2012	19,962
	\$ 49,713

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

7. NOTES PAYABLE:

Notes payable consist of:

	June 30,	
	2010	2009
Note payable to a bank, secured by property, due in monthly payments of \$16,667 plus interest at a variable to fixed derivative swap rate which was 6.95% at June 30, 2010. The note matures April 2014 (See Note 8).	\$ 3,266,666	\$ 3,466,666
A \$2,500,000 operating line of credit, secured by property, with a variable interest rate of prime plus .5% or LIBOR plus 2.5%. Agreement expires December 2010. Interest rate at June 30, 2010 is 2.88%.	500,000	500,000
A \$500,000 operating line of credit, secured by property, with a variable interest rate of prime plus 1%. Agreement expires June 2011.	-	-
Two automobile financing loans, secured by the purchased vehicles, with 2.9% and 0% interest rates, respectively. Agreements expire in 2015.	57,912	-
	\$ 3,824,578	\$ 3,966,666

The annual loan payments are as follows:

<u>Years Ending June 30,</u>	
2011	\$ 711,264
2012	211,425
2013	211,590
2014	2,678,426
2015	8,943
Thereafter	2,930
	\$ 3,824,578

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

8. DERIVATIVE CONTRACT:

The note payable includes a derivative clause known as an interest rate swap. In substance, this provision exchanges the variable rate terms contained in the note agreement for a fixed rate of interest quoted by the bank at its discretion.

The Derivative topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), as amended, requires derivative contracts be recorded on the statements of financial position as an asset or a liability measured at its fair value. The change in the derivative's fair value is recognized currently in the change in net assets as a non-operating expense, unless specific hedge accounting criteria are met.

The Mission entered into a nine-year interest rate swap agreement dated March 21, 2005, with the intent of reducing the impact of changes in interest rates on its variable rate note. The notional amount was set at \$4,300,000. The notional amount at June 30, 2010, was \$3,266,666 and will decline based on the amortization of principal payments. As a result of the interest rate swap, the bank pays a floating rate not greater than the rate payable under this agreement which is currently LIBOR plus 2.00% on the notional amount and the Mission pays a fixed rate quoted by the bank in its sole and absolute discretion on the notional amount which is currently at 6.95%.

Contractual interest rate terms for the Mission's derivative contract at June 30, 2010 were:

- Fixed Rate - 6.95%
- Variable Rate - fluctuating LIBOR plus 2.00%
- Remaining term of contract - three years, nine months

The liability resulting from the estimated difference between the fixed rate and the variable rate was \$379,376 at June 30, 2010. This amount is recomputed each year using the interest rate existing at year-end and is included in the statements of financial position with the current year change reflected in the statements of activities.

9. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

	June 30,	
	2010	2009
Exodus endowment earnings	\$ 140,495	\$ 194,300
Split interest agreement	472,709	127,544
Women's center	63,306	35,928
Women's activities	14,753	19,138
Women graduates' assistance program	1,110	5,358
FHL Bank Facilities Grant	700,335	267
Other	125,433	38,069
	<u>\$ 1,518,142</u>	<u>\$ 420,604</u>

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

10. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets consist of the Exodus endowment which was set up to generate earnings to benefit the graduates of the Mission's one-year rehabilitation program. Interest earned from the investment of these funds are restricted to provide one-time rent subsidies for graduates of the rehabilitation program. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

INTERPRETATION OF RELEVANT LAW

The Mission's board of directors (board) have interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Mission classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted or board designated net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the board considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The purposes of the Mission and the donor-restricted endowment fund
- The investment policies of the Mission, including guidance contained in the donor stipulations
- Priorities of needs of the Mission
- General economic conditions

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF JUNE 30, 2010

The net assets analyzed are included as components of cash and cash equivalents and investments reported in the accompanying financial statements.

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 529,346</u>	<u>\$ 529,346</u>

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

10. PERMANENTLY RESTRICTED NET ASSETS, continued:

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 519,346	\$ 519,346
New donor contributions	-	10,000	10,000
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 529,346</u>	<u>\$ 529,346</u>

FUNDS WITH DEFICIENCIES

(Disclosure required by paragraph 15(d) of Statement 124)

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Mission to retain as a fund of perpetual duration. In accordance with GAAP, no deficiencies of this nature were reported as of June 30, 2010 and 2009.

INVESTMENT POLICIES

Pursuant to policies adopted by the board, all funds received by the Mission for the endowment will be invested as determined by management taking into account that such investments will at all times be made in a prudent manner with a view to safeguarding principal. To date, investments have been made primarily in fixed income mutual funds and various equities.

SPENDING POLICIES

Pursuant to donor stipulations, funds have been disbursed out of income, when available, to supplement expenditures made by the Mission for graduates. The board believes future income will provide such funds.

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

11. GIFTS-IN-KIND ACTIVITY:

Gifts-in-kind activity consists of:

	June 30,	
	2010	2009
Food	\$ 421,827	\$ 278,241
Clothing	465,486	354,896
Linens	25,782	4,475
Other	260,367	134,291
	<u>\$ 1,173,462</u>	<u>\$ 771,903</u>

12. OPERATING LEASES:

The Mission leases warehouse space under operating lease agreements with total monthly payments of \$10,279. The lease expires December 2011.

The Mission also leases office equipment with total monthly payments of \$7,262, maturing from August 2010 to October 2013.

Total lease expense was \$199,832 and \$199,137 for the years ended June 30, 2010 and 2009, respectively.

The future minimum payments are as follows:

<u>Years Ending June 30,</u>	
2011	\$ 188,683
2012	110,939
2013	2,252
2014	750
	<u>\$ 302,624</u>

LOS ANGELES MISSION, INC.

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June 30, 2010 and 2009

13. CONTINGENT LIABILITY:

On April 1, 2007 and April 26, 2010, the Mission executed Promissory Notes and Deeds of Trust on certain real estate to secure performance under the terms of various grants. These grants were received from the Federal Home Loan Bank of San Francisco (the Bank). The Mission has accrued a receivable for grant funds not yet received. As of June 30, 2010, the Mission has purchased commitments related to grant funds in the amount of approximately \$600,000. The Bank's secured real property interest in the 303 East 5th Street property is junior to the notes payable to a bank described in Note 7. Under the terms of the non-interest bearing Promissory Notes, the Mission is not required to make any principal payments as long as it does not default on any provisions of the grants. The Promissory Notes mature on a straight-line basis over the term ending on March 15, 2024 and July 1, 2025, respectively. As of June 30, 2010, the unamortized contingent liability was \$1,356,450.

14. RETIREMENT PLAN:

The Mission sponsors a 401(k) retirement plan (the Plan) covering substantially all employees who meet the eligibility and participation requirements of the Plan. For the fiscal year ended June 30, 2010, all eligible employees have the option to enter the Plan on the first day of the month coinciding with or following employment date. This Plan operates under the "safe harbor" provision whereby the Mission has resolved to contribute 3% of each employee's compensation. These funds are vested immediately.

In addition, the Mission matches 50% of the first 6% of employee contributions. Employees are fully vested in the Plan after two years of service. Retirement expense for the years ended June 30, 2010 and 2009, was \$205,798 and \$217,333, respectively.

15. RELATED PARTY TRANSACTIONS:

A board member received remuneration from the Mission for services rendered as a guest speaker for a week of spiritual emphasis and a graduation ceremony and for travel and lodging expenses to attend board meetings. The honorarium paid and the expenses reimbursed totaled \$500 and \$3,349 for the years ended June 30, 2010 and 2009, respectively.

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

16. AFFILIATED ENTITIES:

The Mission is affiliated with the Los Angeles Christian Health Centers (LACHC). LACHC changed its bylaws to no longer require that the Mission have two governing members also serve as LACHC board members. The chief financial officer of the Mission serves on the LACHC board.

The Consolidation topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), requires consolidation of entities when a reporting entity controls other organizations by having a majority voting interest and economic control. As discussed above, the Mission did not have a majority voting interest in the LACHC. Accordingly, LACHC has not been consolidated with the financial statements of the Mission.

The Mission provided LACHC with support in the amount of \$258,956 and \$398,956 for the years ended June 30, 2010 and 2009, respectively. Included in the support is office space that LACHC leases from the Mission. The office space lease is \$88,956 per year. LACHC also receives services from the Mission which totaled \$45,000 and \$80,000 for the years ended June 30, 2010 and 2009, respectively. The administrative services covered in the agreement include accounting, food services, and custodial services.

17. SUBSEQUENT EVENT:

On June 30, 2010, the Mission signed a \$500,000 line of credit with City National Bank. Subsequent to year-end, the Mission drew down these funds, creating a covenant violation for the primary note. The Mission will obtain a waiver for the violation.

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.