



Los Angeles
MISSION
The Crossroads of Hope

Financial Statements
With Independent Auditors' Report

June 30, 2017 and 2016

LOS ANGELES MISSION, INC. AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Los Angeles Mission, Inc. and Subsidiary (the Organization), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Mission's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Mission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Los Angeles Mission, Inc. and Subsidiary as of June 30, 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.

Capin Crouse LLP

Brea, California
June 6, 2018

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Consolidated Statements of Financial Position

	June 30,	
	2017	2016
ASSETS:		
Cash and cash equivalents	\$ 503,231	\$ 2,251,505
Investments	4,513,514	2,729,482
Accounts and other receivables	128,643	61,776
Estate and trust receivables	811,700	130,000
Prepaid expenses and other assets	233,971	152,917
Gift-in-kind inventory	242,853	201,501
Beneficial interest in trust held by others	176,241	160,999
Pledge and grants receivable	9,025,352	9,214,500
Land, buildings, and equipment - net	19,122,976	19,821,540
	<u>\$ 34,758,481</u>	<u>\$ 34,724,220</u>
LIABILITIES AND NET ASSETS:		
Accounts payable	\$ 617,168	\$ 422,657
Accrued expenses	450,438	434,526
Amounts held for others	7,488	7,488
Deferred revenue	10,000	80,000
Notes payable	6,146,580	5,931,345
	<u>7,231,674</u>	<u>6,876,016</u>
Net assets:		
Unrestricted:		
Undesignated	1,111,183	1,600,940
Board designated	2,095,186	1,933,437
Net investment in land, buildings, and equipment	13,370,815	13,890,195
	<u>16,577,184</u>	<u>17,424,572</u>
Temporarily restricted	10,420,277	9,894,286
Permanently restricted	529,346	529,346
Total net assets	<u>27,526,807</u>	<u>27,848,204</u>
Total Liabilities and Net Assets	<u>\$ 34,758,481</u>	<u>\$ 34,724,220</u>

See notes to financial statements

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Consolidated Statements of Activities

	Year Ended June 30, 2017			Year Ended June 30, 2016		
	Unrestricted	Temporarily	Permanently	Unrestricted	Temporarily	Permanently
		Restricted	Restricted		Restricted	Restricted
			Total			Total
OPERATING:						
SUPPORT, REVENUE, AND RECLASSIFICATIONS:						
Contributions	\$ 10,495,746	\$ 1,147,449	\$ 11,643,195	\$ 10,735,833	\$ 2,930,725	\$ 13,666,558
Gift-in-kind activity	1,318,961	-	1,318,961	1,078,523	-	1,078,523
Investment income	253,945	70,458	324,403	92,316	2,789	95,105
Sales	22,285	-	22,285	37,649	-	37,649
Other revenue	381,707	-	381,707	291,309	-	291,309
Net assets released from restrictions						
Satisfaction of purpose and time restrictions	691,916	(691,916)	-	701,199	(701,199)	-
Total Support, Revenue, and Reclassifications	13,164,560	525,991	13,690,551	12,936,829	2,232,315	15,169,144
EXPENSES:						
Program ministries	8,537,488	-	8,537,488	8,070,719	-	8,070,719
Supporting activities:						
General and administrative	1,371,254	-	1,371,254	1,188,990	-	1,188,990
Fundraising	4,103,206	-	4,103,206	3,855,965	-	3,855,965
	5,474,460	-	5,474,460	5,044,955	-	5,044,955
Total Expenses	14,011,948	-	14,011,948	13,115,674	-	13,115,674
Change in Net Assets from Operations	(847,388)	525,991	(321,397)	(178,845)	2,232,315	2,053,470
OTHER CHANGES IN NET ASSETS:						
Gain on sale of property	-	-	-	2,861,278	-	2,861,278
Loss on grant repayment from sale of property	-	-	-	(1,000,000)	-	(1,000,000)
Change in Net Assets	(847,388)	525,991	(321,397)	1,682,433	2,232,315	3,914,748
Net Assets, Beginning of Year	17,424,572	9,894,286	27,848,204	15,742,139	7,661,971	23,933,456
Net Assets, End of Year	\$ 16,577,184	\$ 10,420,277	\$ 27,526,807	\$ 17,424,572	\$ 9,894,286	\$ 27,848,204

See notes to financial statements

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Consolidated Statements of Functional Expenses

	Year Ended June 30, 2017			Year Ended June 30, 2016			
	Program Ministries	Support Activities		Program Ministries	Support Activities		Total
		General and Administrative	Fundraising		General and Administrative	Fundraising	
Salaries and wages	\$ 2,523,630	\$ 623,649	\$ 783,155	\$ 2,466,871	\$ 574,074	\$ 687,662	\$ 3,728,607
Donor appeals fundraising costs	-	-	1,335,394	-	-	1,611,222	1,611,222
Donor acquisition fundraising costs	-	-	1,340,426	-	-	958,567	958,567
Depreciation	977,556	22,541	19,196	980,700	22,758	19,479	1,022,937
Employee benefits	613,192	138,503	203,394	548,261	140,275	165,039	853,575
Gift-in-kind clothing, food, and other	1,279,659	-	-	946,812	-	-	946,812
Utilities	444,000	12,763	11,728	446,080	12,726	11,784	470,590
Professional services	928,664	192,606	170,455	848,216	159,876	179,400	1,187,492
Repairs and maintenance	476,114	11,436	10,144	597,581	13,806	18,758	630,145
Shelter and rehab program costs	136,630	-	-	177,277	-	-	177,277
Interest	242,106	7,598	6,982	248,437	7,757	7,183	263,377
Occupancy	149,120	4,963	4,425	140,018	4,480	3,422	147,920
Office expenses	123,530	196,756	143,891	106,488	170,844	121,026	398,358
Shelter and rehab food costs	230,108	-	-	263,787	-	-	263,787
Insurance	68,506	60,132	1,045	74,761	65,655	1,432	141,848
Other expenses	199,098	91,208	61,900	64,554	7,865	56,953	129,372
Telecommunication	85,106	2,886	6,274	87,965	2,584	5,170	95,719
Trucks and vans operating costs	43,811	-	-	53,362	-	-	53,362
Conferences, memberships, and dues	16,658	6,213	4,797	19,549	6,290	8,868	34,707
	<u>\$ 8,537,488</u>	<u>\$ 1,371,254</u>	<u>\$ 4,103,206</u>	<u>\$ 8,070,719</u>	<u>\$ 1,188,990</u>	<u>\$ 3,855,965</u>	<u>\$ 13,115,674</u>

See notes to financial statements

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (321,397)	\$ 3,914,748
Reconciliation of change in net assets to net cash provided by operating activities:		
Donated inventory	(1,318,961)	(1,078,523)
Distributed inventory	1,277,609	1,008,549
Depreciation	1,019,293	1,022,937
Net realized and unrealized gain on investments	(181,344)	(22,504)
Gain on assets held for sale, net of loss on grant repayment	-	(1,861,278)
Collections on pledge receivable	400,000	400,000
Amortization of discount on pledge receivable	(210,852)	-
Recognition of pledge receivable	-	(3,231,500)
Net change in:		
Accounts and other receivables	(66,867)	(61,776)
Estate and trust receivables	(681,700)	383,000
Prepaid expenses	(81,054)	(58,359)
Beneficial interest in trust held by others	(15,242)	6,062
Accounts payable	194,511	(61,405)
Accrued expenses	15,912	45,057
Amounts held for others	-	(525)
Deferred revenue	(70,000)	65,000
Net Cash Provided by (Used in) Operating Activities	(40,092)	469,483
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment additions	(2,749,046)	(2,040,852)
Proceeds from sale of investments, net	1,146,358	167,131
Proceeds on asset held for sale	-	3,691,835
Purchases of fixed assets	(320,729)	(600,308)
Net Cash Provided by (Used in) Investing Activities	(1,923,417)	1,217,806
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease	-	(8,964)
Addition to notes payable	394,419	-
Payments on notes payable	(179,184)	(164,967)
Net Cash Provided by (Used in) Financing Activities	215,235	(173,931)
Net Change in Cash and Cash Equivalents	(1,748,274)	1,513,358
Cash and Cash Equivalents, Beginning of Year	2,251,505	738,147
Cash and Cash Equivalents, End of Year	\$ 503,231	\$ 2,251,505
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ 256,586	\$ 263,992

See notes to financial statements

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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 help, hope and opportunity to destitute men, women, and children through spiritual, physical, educational, and social rehabilitation.

The Mission is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state law. However, the Mission is subject to federal income tax on any unrelated business taxable income. In addition the Mission is not classified as a private foundation within the meaning of Section 509(c) of the IRC.

BASIS OF PRESENTATION

The consolidated financial statements of Los Angeles Mission, Inc. and Subsidiary have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred. Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, the Mission is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

PRINCIPLES OF CONSOLIDATION

In the years ended June 30, 2017 and 2016, the consolidated financial statements include the accounts of the Mission and Los Angeles Mission Foundation (the Foundation), collectively known as the Organization. The Foundation did not have any activity during the years ended June 30, 2017 and 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements of the Organization 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 Organization are described below.

CASH AND CASH EQUIVALENTS

For consolidated statements of financial position and cash flow purposes, cash and cash equivalents consist primarily of cash on hand and cash on deposit. These accounts may, at times, exceed federally insured limits. The Mission has not experienced any losses on these accounts. At June 30, 2017 and 2016, the Mission's cash balances exceeded federally insured limits by \$5,649 and \$338,685, respectively. The Mission does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage.

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS

Investments include mutual funds, fixed income, and common stock securities. Investments are carried at market value or quoted market prices of comparable instruments, if market prices are not available. Donated securities are recorded at market value on the date of the gift and are thereafter carried in accordance with the above provisions. The Mission measures fair value using Level 1 inputs, when available, because they generally provide the most reliable evidence of fair value. Level 2 inputs are only used when Level 1 inputs are not available.

Investment securities are exposed to various risks, such as changes in interest rates or credit ratings and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the value of the Organization's investments and total net assets balance could fluctuate materially.

ESTATE AND TRUST RECEIVABLES

The Organization 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.

BENEFICIAL INTEREST IN TRUST HELD BY OTHERS

Beneficial interest in trust held by others consists of the Organization's share of a trust held by an outside trustee. The trust is time restricted, established as part of a split interest agreement. Under the terms of the trust, the Mission has an irrevocable right to receive the income earned from its share of the trust assets for a period of twenty years after the trustors' deaths through 2028. At the end of this twenty year period, the trust will terminate and a portion of the assets will be distributed to the Organization. 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.

PLEDGE RECEIVABLE

In 2012, the Organization received two pledges totaling \$10 million from a major donor. In 2016, the Organization received an additional pledge of \$5 million from the same donor. The present value of future cash flows of this gift is recorded on the statements of financial position. During the years ended June 30, 2017 and 2016, a discount rate of 2.3% was applied against the gift.

GIFT-IN-KIND INVENTORY

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

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY HELD FOR SALE

Property held for sale was a building no longer in use and was sold on July 29, 2015. The property held for sale was recorded at the lower of its carrying amount or fair value less cost to sell.

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 fifty 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 Organization reports expirations of donor restrictions as unrestricted net assets when the donated or acquired long-lived assets are placed in service.

NET ASSETS

The consolidated financial statements report amounts by class of net assets:

Unrestricted net assets are those currently available at the discretion of the board of directors for use in the Organization'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 Organization'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. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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 Organization. Conditional promises-to-give are recognized as revenue when the conditions on which they depend are substantially met. The Organization receives gifts-in-kind, which are recorded as support at the estimated fair market value on the date of the gift. See note 8 for additional information on these items. Goods given to the Organization 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.

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 Organization has adopted the provisions of the Joint Cost topic of the FASB 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, 2017 and 2016.

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. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

3. INVESTMENTS:

Investments consist of:

	June 30,	
	2017	2016
Cash and cash equivalents	\$ 140,960	\$ 198,303
Mutual funds:		
Fixed income	2,771,843	1,313,682
Equity:		
Domestic	310,930	223,292
Emerging markets	72,019	38,860
Global	294,843	235,261
Developed markets	-	14,043
Total mutual funds	3,449,635	1,825,138
Common stocks and bonds:		
Consumer discretionary	103,207	68,430
Energy	13,371	9,138
Financial	162,709	125,591
Health care	140,590	129,644
Industrial	52,796	31,317
Real estate securities	138,462	135,746
Technology and telecommunications	177,864	111,864
Utilities and materials	47,889	24,231
Other	6,430	-
Services	79,601	70,079
Total common stocks	922,919	706,040
Total investments	\$ 4,513,514	\$ 2,729,482

Investment and interest income consists of:

	June 30,	
	2017	2016
Interest and dividends	\$ 143,059	\$ 72,601
Realized and unrealized gains on investments	181,344	22,504
	\$ 324,403	\$ 95,105

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

3. INVESTMENTS:

The following tables present the fair value measurements of investments recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017 and 2016:

As of June 30, 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Fixed income	\$ 2,771,843	\$ -	\$ 2,771,843	\$ -
Mutual funds	677,792	677,792	-	-
Common stocks and bonds	922,919	922,919	-	-
Total investments at fair value:	<u>4,372,554</u>	<u>1,600,711</u>	<u>2,771,843</u>	<u>-</u>
Cash balances not reported at fair value:	140,960	-	-	-
Total investments:	<u>\$ 4,513,514</u>	<u>\$ 1,600,711</u>	<u>\$ 2,771,843</u>	<u>\$ -</u>

As of June 30, 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Mutual funds	\$ 511,456	\$ 511,456	\$ -	\$ -
Fixed income	1,313,682	-	1,313,682	-
Common stocks and bonds	706,040	706,040	-	-
Total assets	<u>\$ 2,531,178</u>	<u>\$ 1,217,496</u>	<u>\$ 1,313,682</u>	<u>\$ -</u>
Cash balances not reported at fair value:	198,304	-	-	-
Total investments:	<u>\$ 2,729,482</u>	<u>\$ 1,217,496</u>	<u>\$ 1,313,682</u>	<u>\$ -</u>

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

4. PLEDGE RECEIVABLE:

The pledge receivable consists of:

	June 30,	
	2017	2016
Amounts expected to be collected in:		
Less than one year	\$ 400,000	\$ 400,000
One year to five years	1,600,000	1,600,000
More than five years	10,800,000	11,200,000
Less discount for present value of cash flows	(3,774,648)	(3,985,500)
	\$ 9,025,352	\$ 9,214,500

5. LAND, BUILDINGS, AND EQUIPMENT - NET:

Land, buildings, and equipment - net consist of:

	June 30,	
	2017	2016
Land	\$ 3,673,886	\$ 3,673,886
Buildings and improvements	33,803,311	33,697,751
Furniture and equipment	3,645,880	3,517,665
Vehicles	309,664	266,357
Land, buildings, and equipment - at cost	41,432,741	41,155,659
Less accumulated depreciation	(22,644,624)	(21,625,336)
	18,788,117	19,530,323
Construction in process	334,859	291,217
Land, buildings, and equipment - net	19,122,976	19,821,540
Less debt secured by land, buildings, and equipment	(5,752,161)	(5,931,345)
Net investment in land, buildings, and equipment	\$ 13,370,815	\$ 13,890,195

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

6. NOTES PAYABLE:

Notes payable consist of:

	June 30,	
	2017	2016
Note payable to a bank, secured by property, due in monthly payments of \$36,249. The interest rate is fixed at 4.31% with any unpaid balance due December 2021.	\$ 5,752,161	\$ 5,931,345
Amount borrowed on margin with a financial institution, due upon demand, with an interest rate of 1.71%.	394,419	-
	\$ 6,146,580	\$ 5,931,345

The annual principal payments are as follows:

Year Ending June 30,	
2018	\$ 190,979
2019	199,375
2020	208,140
2021	217,290
2022	4,936,377
	\$ 5,752,161

LOAN COVENANTS

In conjunction with the note payable, the Organization is required to comply with certain reporting covenants. As of June 30, 2017, the Organization was not in compliance with the bank's fixed charge coverage ratio covenant. On April 2, 2018, the Organization and the bank entered into a loan modification agreement which waived the covenant violation. See note 14 for further discussion.

No interest was capitalized in the years ended June 30, 2017 and 2016.

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

7. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

	June 30,	
	2017	2016
Exodus endowment earnings	\$ 297,372	\$ 266,913
Beneficial interest in trusts held by others	176,241	160,999
Women's center - pledge receivable (note 2)	9,025,352	9,214,500
Mental health counseling & services	-	17,750
Time restrictions	823,000	130,000
Other	98,312	104,124
	<u>\$ 10,420,277</u>	<u>\$ 9,894,286</u>

8. 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 Organization's one-year rehabilitation program. Investment income earned from the investment of these funds is restricted to assist graduates in the transition back into society. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

8. PERMANENTLY RESTRICTED NET ASSETS, continued:

INTERPRETATION OF RELEVANT LAW

The Organization'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 Organization 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 Organization 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, 2017

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

	Temporarily restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 297,372	\$ 529,346	\$ 826,718

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Temporarily restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 266,914	\$ 529,346	\$ 796,260
Investment income	70,458	-	70,458
Appropriated for expenditure	(40,000)	-	(40,000)
Endowment net assets, end of year	\$ 297,372	\$ 529,346	\$ 826,718

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

8. PERMANENTLY RESTRICTED NET ASSETS, continued:

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF JUNE 30, 2016

	Temporarily restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 266,913	\$ 529,346	\$ 796,259

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Temporarily restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 304,125	\$ 529,346	\$ 833,471
Investment income	2,789	-	2,789
Appropriated for expenditure	(40,000)	-	(40,000)
Endowment net assets, end of year	\$ 266,914	\$ 529,346	\$ 796,260

FUNDS WITH DEFICIENCIES

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 Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, no deficiencies of this nature were reported as of June 30, 2017 and 2016.

INVESTMENT POLICIES

Pursuant to policies adopted by the board of directors, all funds received by the Organization 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 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 to provide career services for graduates. The board of directors believes future income will provide such funds.

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

9. GIFT-IN-KIND ACTIVITY:

Gift-in-kind activity, as reported on the statements of activities, consists of:

	June 30,	
	2017	2016
Food	\$ 485,753	\$ 431,684
Clothing	618,121	398,893
Linens	14,276	26,396
Other	200,811	221,550
	<u>\$ 1,318,961</u>	<u>\$ 1,078,523</u>

10. OPERATING LEASES:

The Organization leases office equipment with total monthly payments of approximately \$2,100, maturing throughout 2021. Total lease expense was \$36,676 and \$37,870 for the years ended June 30, 2017 and 2016, respectively.

The future minimum payments are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 25,446
2019	25,446
2020	24,281
2021	14,673
	<u>\$ 89,846</u>

11. CONTINGENT LIABILITY:

On April 1, 2007; April 26, 2010; and April 11, 2011, the Organization 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 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 6. Under the terms of the non-interest bearing Promissory Notes, the Organization is not required to make any principal payments as long as it does not default on any provisions of the grants. On July 29, 2015, the Organization repaid the April 11, 2011, promissory note in full when the building that secured it was sold. The Promissory Notes mature on March 15, 2024 and December 31, 2028. As of June 30, 2017, the unamortized contingent liability was \$1,411,000 and the Organization was in compliance with the terms of the grants.

LOS ANGELES MISSION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

12. RETIREMENT PLAN:

The Organization 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, 2017, all eligible employees have the option to enter the Plan on the first day of the month coinciding with or following employment date.

In addition, the Organization matches 50% of the first 6% of employee contributions. Employees are fully vested in the Plan after two years of service. Retirement expenses for the years ended June 30, 2017 and 2016, were \$71,785 and \$67,174, respectively.

13. RELATED PARTY TRANSACTIONS:

The Organization is affiliated with the Los Angeles Christian Health Centers (LACHC) because the chief financial officer of the Organization serves on the LACHC board of directors. During the years ended June 30, 2017 and 2016, LACHC paid \$121,212 and \$118,116 for office space and services, respectively.

14. SUBSEQUENT EVENTS:

On April 2, 2018, the Organization and its lender executed a loan modification agreement (the modification agreement). That modification agreement required the Organization to make a principal reduction payment of \$615,000. In exchange, the lender waived the fixed charge coverage ratio violations from the year ended June 30, 2017, and agreed not to enforce the fixed charge coverage ratio for the quarters ending March 31, 2018, June 30, 2018, and September 30, 2018. Instead, the Organization is required to achieve a specified level of earnings before interest, taxes, depreciation, amortization and rent, as defined in the agreement. The organization was in compliance with this requirement as of March 31, 2018.

Subsequent events were evaluated through June 6, 2018, which is the date the consolidated financial statements were available to be issued.