



Los Angeles
MISSION
The Crossroads of Hope

Financial Statements
With Independent Auditors' Report

June 30, 2012 and 2011

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, 2012 and 2011, 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, 2012 and 2011, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Brea, California
October 3, 2012

LOS ANGELES MISSION, INC.

Statements of Financial Position

	June 30,	
	2012	2011
ASSETS:		
Cash and cash equivalents	\$ 172,687	\$ 72,387
Investments	727,971	859,039
Accounts and other receivables	52,998	9,039
Pledges and grants receivable	3,800,000	55,000
Estate and trust receivables	610,000	857,000
Prepaid expenses	146,832	118,957
Gift-in-kind inventory	156,522	304,578
Property held for sale	24,041	24,041
Beneficial interest in trusts held by others	490,150	571,192
Land, buildings, and equipment - net	25,671,324	24,029,431
Total Assets	\$ 31,852,525	\$ 26,900,664
LIABILITIES AND NET ASSETS:		
Accounts payable	\$ 476,693	\$ 352,778
Accrued expenses	480,231	597,343
Amounts held for others	27,278	30,428
Deferred revenue	-	50,000
Capital lease payable	-	8,182
Notes payable	7,525,017	4,183,321
Derivative	-	320,375
	8,509,219	5,542,427
Net assets:		
Unrestricted:		
Undesignated	106,977	(7,048)
Net investment in land, buildings, and equipment	18,146,307	19,837,928
	18,253,284	19,830,880
Temporarily restricted	4,560,676	998,011
Permanently restricted	529,346	529,346
Total net assets	23,343,306	21,358,237
Total Liabilities and Net Assets	\$ 31,852,525	\$ 26,900,664

See notes to financial statements

LOS ANGELES MISSION, INC.

Statements of Activities

	Year Ended June 30, 2012				Year Ended June 30, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING:								
SUPPORT, REVENUE, AND RECLASSIFICATIONS:								
Contributions	\$ 10,863,144	\$ 3,788,265	\$ -	\$ 14,651,409	\$ 11,138,992	\$ 431,361	\$ -	\$ 11,570,353
Gift-in-kind activity	906,746	-	-	906,746	1,131,962	-	-	1,131,962
Investment income	7,290	(1,552)	-	5,738	6,183	88,759	-	94,942
Sales	39,241	-	-	39,241	24,106	-	-	24,106
Other revenue	198,575	-	-	198,575	405,698	-	-	405,698
Net assets released from restrictions:								
Satisfaction of donor restrictions	224,048	(224,048)	-	-	1,040,251	(1,040,251)	-	-
Total Support, Revenue, and Reclassifications	<u>12,239,044</u>	<u>3,562,665</u>	<u>-</u>	<u>15,801,709</u>	<u>13,747,192</u>	<u>(520,131)</u>	<u>-</u>	<u>13,227,061</u>
EXPENSES:								
Program ministries	<u>8,660,933</u>	<u>-</u>	<u>-</u>	<u>8,660,933</u>	<u>8,487,571</u>	<u>-</u>	<u>-</u>	<u>8,487,571</u>
Supporting activities:								
General and administrative	1,047,866	-	-	1,047,866	1,110,080	-	-	1,110,080
Fundraising	4,138,716	-	-	4,138,716	3,831,513	-	-	3,831,513
	<u>5,186,582</u>	<u>-</u>	<u>-</u>	<u>5,186,582</u>	<u>4,941,593</u>	<u>-</u>	<u>-</u>	<u>4,941,593</u>
Total Expenses	<u>13,847,515</u>	<u>-</u>	<u>-</u>	<u>13,847,515</u>	<u>13,429,164</u>	<u>-</u>	<u>-</u>	<u>13,429,164</u>
Change in Net Assets from Operations	(1,608,471)	3,562,665	-	1,954,194	318,028	(520,131)	-	(202,103)
NON-OPERATING:								
Derivative Impact on Interest Expense	<u>30,875</u>	<u>-</u>	<u>-</u>	<u>30,875</u>	<u>59,001</u>	<u>-</u>	<u>-</u>	<u>59,001</u>
Change in Net Assets	(1,577,596)	3,562,665	-	1,985,069	377,029	(520,131)	-	(143,102)
Net Assets, Beginning of Year	<u>19,830,880</u>	<u>998,011</u>	<u>529,346</u>	<u>21,358,237</u>	<u>19,453,851</u>	<u>1,518,142</u>	<u>529,346</u>	<u>21,501,339</u>
Net Assets, End of Year	<u>\$ 18,253,284</u>	<u>\$ 4,560,676</u>	<u>\$ 529,346</u>	<u>\$ 23,343,306</u>	<u>\$ 19,830,880</u>	<u>\$ 998,011</u>	<u>\$ 529,346</u>	<u>\$ 21,358,237</u>

See notes to financial statements

LOS ANGELES MISSION, INC.

Statements of Functional Expenses

	Year Ended June 30, 2012				Year Ended June 30, 2011			
	Program Ministries	Support Activities		Total	Program Ministries	Support Activities		Total
		General and Administrative	Fundraising			General and Administrative	Fundraising	
Salaries and wages	\$ 3,078,739	\$ 524,264	\$ 550,490	\$ 4,153,493	\$ 3,191,785	\$ 542,469	\$ 475,398	\$ 4,209,652
Donor appeals fundraising costs	-	-	2,019,394	2,019,394	-	-	1,854,368	1,854,368
Donor acquisition fundraising costs	-	-	950,266	950,266	-	-	1,030,846	1,030,846
Depreciation	1,369,747	26,582	11,548	1,407,877	1,099,160	25,091	10,028	1,134,279
Employee benefits	778,679	111,002	150,789	1,040,470	794,899	145,824	130,566	1,071,289
Gift-in-kind clothing, food, and other	1,109,801	-	-	1,109,801	952,896	-	-	952,896
Utilities	473,448	8,224	4,112	485,784	508,858	9,023	4,512	522,393
Health center support	106,620	-	-	106,620	133,956	-	-	133,956
Professional services	129,397	153,528	284,336	567,261	73,157	156,069	201,585	430,811
Repairs and maintenance	353,639	4,617	2,308	360,564	421,028	6,814	5,529	433,371
Shelter and rehab program costs	242,823	-	-	242,823	266,203	-	-	266,203
Interest	278,516	4,699	2,349	285,564	250,038	5,110	2,555	257,703
Occupancy	161,277	1,849	863	163,989	233,075	2,562	883	236,520
Office expenses	120,266	151,872	80,735	352,873	109,344	152,555	85,590	347,489
Shelter and rehab food costs	167,909	-	-	167,909	164,185	-	-	164,185
Insurance	102,802	48,049	541	151,392	98,985	41,398	483	140,866
Other expenses	64,071	4,709	65,462	134,242	65,390	11,615	15,776	92,781
Telecommunication	67,689	1,667	7,095	76,451	66,786	1,765	6,288	74,839
Trucks and vans operating costs	45,706	-	-	45,706	37,788	-	-	37,788
Conferences, memberships, and dues	9,804	6,804	8,428	25,036	20,038	9,785	7,106	36,929
Total	\$ 8,660,933	\$ 1,047,866	\$ 4,138,716	\$ 13,847,515	\$ 8,487,571	\$ 1,110,080	\$ 3,831,513	\$ 13,429,164

See notes to financial statements

LOS ANGELES MISSION, INC.

Statements of Cash Flows

	Year Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,985,069	\$ (143,102)
Reconciliation of change in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,407,877	1,134,279
Net realized and unrealized (gain) loss on investments	19,492	(78,118)
Gain on disposal of fixed assets	-	(220,493)
Derivative	(30,875)	(59,001)
Recognition of pledge receivable	(3,800,000)	-
Net change in:		
Accounts and other receivables	(43,959)	124,089
Grant receivable	55,000	945,000
Estate and trusts receivables	247,000	(327,000)
Prepaid expenses	(27,875)	(30,622)
Gift-in-kind inventory	148,056	(195,835)
Beneficial interest in trusts held by others	81,042	(98,483)
Accounts payable	123,915	17,995
Accrued expenses	(117,112)	(96,061)
Amounts held for others	(3,150)	(38,088)
Deferred revenue	(50,000)	50,000
Net Cash (Used in) Provided by Operating Activities	(5,520)	984,560
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(17,940)	(569,875)
Proceeds from sale of investments	129,516	559,233
Purchases of fixed assets	(3,049,770)	(1,998,033)
Proceeds from sale of fixed assets	-	693,171
Net Cash Used in Investing Activities	(2,938,194)	(1,315,504)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from new notes payable	3,393,834	5,760,000
Payments on capital lease	(8,182)	(27,627)
Payments on notes payable	(341,638)	(5,415,161)
Net Cash Provided by Financing Activities	3,044,014	317,212
Net Change in Cash and Cash Equivalents	100,300	(13,732)
Cash and Cash Equivalents, Beginning of Year	72,387	86,119
Cash and Cash Equivalents, End of Year	\$ 172,687	\$ 72,387
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest (none capitalized)	\$ 279,165	\$ 258,474
Non-cash refinancing of notes payable	\$ 2,966,666	\$ -

See notes to financial statements

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2012 and 2011

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 (the 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).

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 Mission's investments and total net assets balance could fluctuate materially.

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, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

BENEFICIAL INTEREST IN TRUSTS HELD BY OTHERS

Beneficial interest in trusts held by others consists of the Mission's share of 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.

PLEDGE RECEIVABLE

During the year ended June 30, 2012, the Mission received a long-term pledge from a major donor. The terms of the pledge are that the donor will contribute \$250,000 each year for a period of 20 years. The present value of future cash flows of this gift is recorded on the statements of financial position. As of June 30, 2012, the gross value of expected future payments is \$4,750,000.

GIFT-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, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

NET ASSETS

The financial statements report amounts by class of net assets:

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, 2012 and 2011

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 9 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.

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 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, 2012 and 2011.

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, 2012 and 2011

3. INVESTMENTS:

The Mission uses appropriate valuation techniques to determine fair value based on inputs available. When available, the Mission measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs were not available.

The difference between investments on the statements of financial position and investments stated at fair value is comprised of uninvested cash and cash equivalents intended for long-term purposes.

Fair values of assets measured on a recurring basis at June 30, 2012 and 2011, are as follows:

	June 30, 2012:	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Mutual funds:				
Fixed income	\$ 285,754	\$ 285,754	\$ -	\$ -
Equity	123,285	123,285	-	-
Total mutual funds	409,039	409,039	-	-
Common stocks:				
Materials	9,779	9,779	-	-
Telecommunications services	9,168	9,168	-	-
Consumer discretionary	32,116	32,116	-	-
Consumer staples	36,106	36,106	-	-
Energy	31,630	31,630	-	-
Financial	40,250	40,250	-	-
Health care	35,308	35,308	-	-
Industrial	29,467	29,467	-	-
Technology	58,622	58,622	-	-
Utilities	11,777	11,777	-	-
Total common stocks	294,223	294,223	-	-
Total investments	\$ 703,262	\$ 703,262	\$ -	\$ -

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2012 and 2011

3. INVESTMENTS, continued:

	Fair Value Measurements Using:			
	June 30, 2011:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Mutual funds:				
Fixed income	\$ 338,360	\$ 338,360	\$ -	\$ -
Equity	65,515	65,515	-	-
Total mutual funds	403,875	403,875	-	-
Common stocks:				
Materials	22,344	22,344	-	-
Telecommunications services	14,113	14,113	-	-
Consumer discretionary	42,167	42,167	-	-
Consumer staples	34,652	34,652	-	-
Energy	66,085	66,085	-	-
Financial	66,687	66,687	-	-
Health care	58,507	58,507	-	-
Industrial	48,165	48,165	-	-
Technology	90,522	90,522	-	-
Utilities	9,781	9,781	-	-
Total common stocks	453,023	453,023	-	-
Total investments	\$ 856,898	\$ 856,898	\$ -	\$ -

Investment income consists of:

	June 30,	
	2012	2011
Interest and dividends	\$ 17,940	\$ 11,652
Interest from cash and cash equivalents	7,290	5,172
Realized and unrealized gains (losses) on investments	(19,492)	78,118
	\$ 5,738	\$ 94,942

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2012 and 2011

4. LAND, BUILDINGS, AND EQUIPMENT - NET:

Land, buildings, and equipment - net consist of:

	June 30,	
	2012	2011
Land	\$ 4,449,886	\$ 3,641,477
Buildings and improvements	35,973,339	32,073,467
Furniture and equipment	5,780,384	5,621,572
Vehicles	395,516	395,516
Land, buildings, and equipment - at cost	46,599,125	41,732,032
Less accumulated depreciation	(20,927,801)	(19,519,924)
	25,671,324	22,212,108
Construction in process	-	1,817,323
Land, buildings, and equipment - net	25,671,324	24,029,431
Less debt secured by land, buildings, and equipment	(7,525,017)	(4,191,503)
Net investment in land, buildings, and equipment	\$ 18,146,307	\$ 19,837,928

5. CAPITAL LEASE PAYABLE:

Capital lease payable consists of:

	June 30,	
	2012	2011
Capital lease, secured by vehicles, with interest at 7.43%. Total monthly payments of \$2,707 until February 2012.	\$ -	\$ 8,182

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2012 and 2011

6. NOTES PAYABLE:

Notes payable consist of:

	June 30,	
	2012	2011
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, 2011. The note has been refinanced.	\$ -	\$ 3,066,666
Note payable to a bank, secured by property, due in monthly payments of \$36,249. Interest rates are fixed at 4.31% with the balance due December 2021.	6,574,784	-
A \$2,500,000 operating line of credit, secured by property, with a variable interest rate of prime or LIBOR plus 1.85%. Agreement expires December 2012. Interest rates at June 30, 2012, range from 2.10% to 3.25%.	915,000	1,070,000
A \$500,000 operating line of credit, secured by investments, with a variable interest rate of prime plus 1%. Agreement expired June 2011.	-	-
Two automobile financing loans, secured by the purchased vehicles, with 2.9% and 0% interest rates, respectively, expiring in 2015.	35,233	46,655
	\$ 7,525,017	\$ 4,183,321

As of June 30, 2012, the Mission was not in compliance with certain bank requirements. As a result, the entire balance due the bank is shown as due during the next year.

The annual loan payments are as follows:

Year Ending June 30,	
2013	\$ 7,501,374
2014	11,760
2015	8,953
2016	2,930
	\$ 7,525,017

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2012 and 2011

7. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

	June 30,	
	2012	2011
Exodus endowment earnings	\$ 187,243	\$ 207,835
Split interest agreement	490,150	571,192
Women's center	40,496	187,142
Women's center - pledge receivable	3,800,000	-
Women's activities	13,988	14,408
Other	28,799	17,434
	<u>\$ 4,560,676</u>	<u>\$ 998,011</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 Mission's one-year rehabilitation program. Investment income earned from the investment of these funds is restricted to provide one-time rent subsidies for graduates of the rehabilitation program. As required by Generally Accepted Accounting Principles (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

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2012 and 2011

8. PERMANENTLY RESTRICTED NET ASSETS, continued:

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF JUNE 30, 2012

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

	Temporarily restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 187,243	\$ 529,346	\$ 716,589

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Temporarily restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 207,835	\$ 529,346	\$ 737,181
Investment income	(1,552)	-	(1,552)
Endowment assets expended	(19,040)	-	(19,040)
Endowment net assets, end of year	\$ 187,243	\$ 529,346	\$ 716,589

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF JUNE 30, 2011

	Temporarily restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 207,835	\$ 529,346	\$ 737,181

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Temporarily restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 140,495	\$ 529,346	\$ 669,841
Investment income	88,759	-	88,759
Endowment assets expended	(21,419)	-	(21,419)
Endowment net assets, end of year	\$ 207,835	\$ 529,346	\$ 737,181

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2012 and 2011

8. PERMANENTLY RESTRICTED NET ASSETS, continued:

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 Mission to retain as a fund of perpetual duration. In accordance with U.S. Generally Accepted Accounting Principles (GAAP), no deficiencies of this nature were reported as of June 30, 2012 and 2011.

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.

9. GIFT-IN-KIND ACTIVITY:

Gift-in-kind activity consists of:

	June 30,	
	2012	2011
Food	\$ 336,780	\$ 364,212
Clothing	442,110	445,384
Linens	14,623	9,134
Other	113,233	313,232
	<u>\$ 906,746</u>	<u>\$ 1,131,962</u>

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2012 and 2011

10. OPERATING LEASES:

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

The Mission also leases office equipment with total monthly payments of \$3,365, maturing from November 2011 to December 2015.

Total lease expense was \$102,303 and \$179,725 for the years ended June 30, 2012 and 2011, respectively.

The future minimum payments are as follows:

<u>Year Ending June 30.</u>	
2013	\$ 43,529
2014	43,529
2015	43,529
2016	21,677
	<hr/>
	\$ 152,264
	<hr/> <hr/>

11. CONTINGENT LIABILITY:

On April 1, 2007; April 26, 2010; and April 11, 2011, 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 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 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 March 15, 2024; July 1, 2025; and July 1, 2026, respectively. As of June 30, 2012, the unamortized contingent liability was \$2,411,000 and the Mission is in compliance with the terms of the grants.

12. 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, 2012, all eligible employees have the option to enter the Plan on the first day of the month coinciding with or following employment date. During the year ended June 30, 2011, this Plan operated under the "safe harbor" provision whereby the Mission resolved to contribute 3% of each employee's compensation. These funds are vested immediately. During the year ended June 30, 2012, the Mission elected not to make the same contribution.

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, 2012 and 2011, was \$69,251 and \$198,305 respectively.

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2012 and 2011

13. 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 \$2,390 and \$3,600 for the years ended June 30, 2012 and 2011, respectively.

14. AFFILIATED ENTITIES:

The Mission is affiliated with the Los Angeles Christian Health Centers (LACHC) because the chief financial officer of the Mission serves on the LACHC board.

The consolidation topic of the FASB 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 \$106,620 and \$133,956 for the years ended June 30, 2012 and 2011, respectively. Included in the support is office space that LACHC leases from the Mission. The office space lease was \$91,620 and \$88,956, respectively. LACHC was also granted services from the Mission which totaled \$15,000 and \$45,000 for the years ended June 30, 2012 and 2011, respectively. The administrative services covered in the agreement include accounting, food services, and custodial services.

15. SUBSEQUENT EVENT:

In September 2012, an additional \$5,000,000 was pledged, altering the pledge receivable balance and the terms of payment. The new \$10,000,000 pledge will be paid over 25 years with annual payments of \$400,000.

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.