



Los Angeles
MISSION
The Crossroads of Hope

Financial Statements
With Independent Auditors' Report

June 30, 2013 and 2012

LOS ANGELES MISSION, INC.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Los Angeles Mission (the Mission), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Mission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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.
Los Angeles, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Los Angeles Mission as of June 30, 2013 and 2012, 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
October 14, 2013

LOS ANGELES MISSION, INC.

Statements of Financial Position

	June 30,	
	2013	2012
ASSETS:		
Cash and cash equivalents	\$ 79,116	\$ 172,687
Investments	764,934	727,971
Accounts and other receivables	8,386	52,998
Pledges and grants receivable	6,566,893	3,800,000
Estate and trust receivables	397,000	610,000
Prepaid expenses	110,893	146,832
Gift-in-kind inventory	116,418	156,522
Property held for sale	24,041	24,041
Beneficial interest in trusts held by others	480,866	490,150
Land, buildings, and equipment - net	24,436,902	25,671,324
Total Assets	\$ 32,985,449	\$ 31,852,525
LIABILITIES AND NET ASSETS:		
Accounts payable	\$ 448,338	\$ 476,693
Accrued expenses	436,141	480,231
Amounts held for others	37,578	27,278
Deferred revenue	50,000	-
Notes payable	7,567,771	7,525,017
	8,539,828	8,509,219
Net assets:		
Unrestricted:		
Undesignated	(347,919)	106,977
Net investment in land, buildings, and equipment	16,869,131	18,146,307
	16,521,212	18,253,284
Temporarily restricted	7,395,063	4,560,676
Permanently restricted	529,346	529,346
Total net assets	24,445,621	23,343,306
Total Liabilities and Net Assets	\$ 32,985,449	\$ 31,852,525

See notes to financial statements

LOS ANGELES MISSION, INC.

Statements of Activities

	Year Ended June 30, 2013				Year Ended June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING:								
SUPPORT, REVENUE, AND								
RECLASSIFICATIONS:								
Contributions	\$ 9,766,167	\$ 3,204,507	\$ -	\$ 12,970,674	\$ 10,863,144	\$ 3,788,265	\$ -	\$ 14,651,409
Gift-in-kind activity	1,345,390	-	-	1,345,390	906,746	-	-	906,746
Investment income	(30,639)	71,964	-	41,325	7,290	(1,552)	-	5,738
Sales	20,793	-	-	20,793	39,241	-	-	39,241
Other revenue	277,153	-	-	277,153	198,575	-	-	198,575
Net assets released from restrictions:								
Satisfaction of donor restrictions	442,084	(442,084)	-	-	224,048	(224,048)	-	-
Total Support, Revenue, and Reclassifications	<u>11,820,948</u>	<u>2,834,387</u>	<u>-</u>	<u>14,655,335</u>	<u>12,239,044</u>	<u>3,562,665</u>	<u>-</u>	<u>15,801,709</u>
EXPENSES:								
Program ministries	<u>8,918,088</u>	<u>-</u>	<u>-</u>	<u>8,918,088</u>	<u>8,660,933</u>	<u>-</u>	<u>-</u>	<u>8,660,933</u>
Supporting activities:								
General and administrative	1,001,893	-	-	1,001,893	1,047,866	-	-	1,047,866
Fundraising	3,633,039	-	-	3,633,039	4,138,716	-	-	4,138,716
	<u>4,634,932</u>	<u>-</u>	<u>-</u>	<u>4,634,932</u>	<u>5,186,582</u>	<u>-</u>	<u>-</u>	<u>5,186,582</u>
Total Expenses	<u>13,553,020</u>	<u>-</u>	<u>-</u>	<u>13,553,020</u>	<u>13,847,515</u>	<u>-</u>	<u>-</u>	<u>13,847,515</u>
Change in Net Assets from Operations	(1,732,072)	2,834,387	-	1,102,315	(1,608,471)	3,562,665	-	1,954,194
NON-OPERATING:								
Derivative Impact on Interest Expense	-	-	-	-	30,875	-	-	30,875
Change in Net Assets	(1,732,072)	2,834,387	-	1,102,315	(1,577,596)	3,562,665	-	1,985,069
Net Assets, Beginning 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>
Net Assets, End of Year	<u>\$ 16,521,212</u>	<u>\$ 7,395,063</u>	<u>\$ 529,346</u>	<u>\$ 24,445,621</u>	<u>\$18,253,284</u>	<u>\$4,560,676</u>	<u>\$529,346</u>	<u>\$23,343,306</u>

See notes to financial statements

LOS ANGELES MISSION, INC.

Statements of Functional Expenses

	Year Ended June 30, 2013				Year Ended June 30, 2012			
	Program Ministries	Support Activities			Program Ministries	Support Activities		
		General and Administrative	Fundraising	Total		General and Administrative	Fundraising	Total
Salaries and wages	\$ 2,969,015	\$ 460,457	\$ 550,662	\$ 3,980,134	\$ 3,078,739	\$ 524,264	\$ 550,490	\$ 4,153,493
Donor appeals fundraising costs	-	-	1,786,573	1,786,573	-	-	2,019,394	2,019,394
Donor acquisition fundraising costs	-	-	838,417	838,417	-	-	950,266	950,266
Depreciation	1,301,825	36,761	10,979	1,349,565	1,369,747	26,582	11,548	1,407,877
Employee benefits	702,996	112,917	133,462	949,375	778,679	111,002	150,789	1,040,470
Gift-in-kind clothing, food, and other	1,369,716	-	-	1,369,716	1,109,801	-	-	1,109,801
Utilities	582,838	9,747	4,873	597,458	473,448	8,224	4,112	485,784
Health center support	110,000	-	-	110,000	106,620	-	-	106,620
Professional services	93,584	166,622	168,948	429,154	129,397	153,528	284,336	567,261
Repairs and maintenance	492,637	5,155	3,008	500,800	353,639	4,617	2,308	360,564
Shelter and rehab program costs	258,439	-	-	258,439	242,823	-	-	242,823
Interest	296,651	6,122	3,058	305,831	278,516	4,699	2,349	285,564
Occupancy	80,936	1,813	855	83,604	161,277	1,849	863	163,989
Office expenses	153,451	133,412	72,008	358,871	120,266	151,872	80,735	352,873
Shelter and rehab food costs	204,611	-	-	204,611	167,909	-	-	167,909
Insurance	96,262	55,885	477	152,624	102,802	48,049	541	151,392
Other expenses	50,769	3,945	47,562	102,276	64,071	4,709	65,462	134,242
Telecommunication	83,604	1,633	6,762	91,999	67,689	1,667	7,095	76,451
Trucks and vans operating costs	47,057	-	-	47,057	45,706	-	-	45,706
Conferences, memberships, and dues	23,697	7,424	5,395	36,516	9,804	6,804	8,428	25,036
	<u>\$ 8,918,088</u>	<u>\$ 1,001,893</u>	<u>\$ 3,633,039</u>	<u>\$ 13,553,020</u>	<u>\$ 8,660,933</u>	<u>\$ 1,047,866</u>	<u>\$ 4,138,716</u>	<u>\$ 13,847,515</u>

See notes to financial statements

LOS ANGELES MISSION, INC.

Statements of Cash Flows

	Year Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,102,315	\$ 1,985,069
Reconciliation of change in net assets to net cash used in operating activities:		
Depreciation	1,349,565	1,407,877
Net realized and unrealized (gain) loss on investments	(50,252)	19,492
Loss on disposal of fixed assets	34,073	-
Derivative	-	(30,875)
Recognition of pledge receivable	(3,156,893)	(3,800,000)
Net change in:		
Accounts and other receivables	44,612	(43,959)
Pledges and grants receivable	390,000	55,000
Estate and trusts receivables	213,000	247,000
Prepaid expenses	35,939	(27,875)
Gift-in-kind inventory	40,104	148,056
Beneficial interest in trusts held by others	9,284	81,042
Accounts payable	(28,355)	123,915
Accrued expenses	(44,090)	(117,112)
Amounts held for others	10,300	(3,150)
Deferred revenue	50,000	(50,000)
Net Cash Used in Operating Activities	(398)	(5,520)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(21,711)	(17,940)
Proceeds from sale of investments, net	35,000	129,516
Purchases of fixed assets	(149,216)	(3,049,770)
Net Cash Used in Investing Activities	(135,927)	(2,938,194)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from new notes payable	205,000	3,393,834
Payments on capital lease	(11,584)	(8,182)
Payments on notes payable	(150,662)	(341,638)
Net Cash Provided by Financing Activities	42,754	3,044,014
Net Change in Cash and Cash Equivalents	(93,571)	100,300
Cash and Cash Equivalents, Beginning of Year	172,687	72,387
Cash and Cash Equivalents, End of Year	\$ 79,116	\$ 172,687
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest (none capitalized)	\$ 305,671	\$ 279,165
Non-cash refinancing of notes payable	\$ -	\$ 2,966,666

See notes to financial statements

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2013 and 2012

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 and cash on deposit. 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, 2013 and 2012

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.

PLEDGES RECEIVABLE

During the year ended June 30, 2013, the Mission received a long-term pledge from a major donor that modified a previous pledge. The terms of the pledge are that the donor will contribute \$400,000 each year for a period of 25 years. The present value of future cash flows of this gift is recorded on the statements of financial position. As of June 30, 2013, the net present value of expected future payments is approximately \$6,487,000.

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, 2013 and 2012

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.

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 8 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.

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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, 2013 and 2012.

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.

UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of June 30, 2013 and 2012, the Mission had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

The Mission files information tax returns in the United States. The Mission is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2008.

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2013 and 2012

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. The cash balance held in investments is \$6,556 and \$24,709 for the years ended June 30, 2013 and 2012, respectively.

Fair values of assets measured on a recurring basis at June 30, 2013 and 2012, are as follows:

	June 30, 2013:	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	\$ 320,486	\$ 320,486	\$ -	\$ -
Equity	168,327	168,327	-	-
Total mutual funds	<u>488,813</u>	<u>488,813</u>	-	-
Common stocks:				
Materials	3,766	3,766	-	-
Telecommunications services	8,275	8,275	-	-
Consumer discretionary	27,040	27,040	-	-
Consumer staples	23,364	23,364	-	-
Energy	29,554	29,554	-	-
Financial	49,059	49,059	-	-
Health care	40,692	40,692	-	-
Industrial	29,571	29,571	-	-
Technology	49,231	49,231	-	-
Utilities	9,013	9,013	-	-
Total common stocks	<u>269,565</u>	<u>269,565</u>	-	-
Total investments	<u>\$ 758,378</u>	<u>\$ 758,378</u>	<u>\$ -</u>	<u>\$ -</u>

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2013 and 2012

3. INVESTMENTS, continued:

	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	June 30, 2012:			
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	\$ -	\$ -

Investment income consists of:

	June 30,	
	2013	2012
Interest and dividends	\$ 21,712	\$ 17,940
Interest from cash and cash equivalents	3,434	7,290
Loss on disposal of assets	(34,073)	-
Realized and unrealized gains (losses) on investments	50,252	(19,492)
	\$ 41,325	\$ 5,738

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2013 and 2012

4. LAND, BUILDINGS, AND EQUIPMENT - NET:

Land, buildings, and equipment - net consist of:

	June 30,	
	2013	2012
Land	\$ 4,449,886	\$ 4,449,886
Buildings and improvements	36,014,499	35,973,339
Furniture and equipment	3,780,489	5,780,384
Vehicles	283,029	395,516
Land, buildings, and equipment - at cost	<u>44,527,903</u>	<u>46,599,125</u>
Less accumulated depreciation	<u>(20,091,001)</u>	<u>(20,927,801)</u>
Land, buildings, and equipment - net	24,436,902	25,671,324
Less debt secured by land, buildings, and equipment	<u>(7,567,771)</u>	<u>(7,525,017)</u>
Net investment in land, buildings, and equipment	<u>\$ 16,869,131</u>	<u>\$ 18,146,307</u>

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2013 and 2012

5. NOTES PAYABLE:

Notes payable consist of:

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Note payable to a bank, secured by property, due in monthly payments of \$36,249. Interest rates are fixed at 4.31% with any unpaid balance due December 2021.	\$ 6,424,122	\$ 6,574,784
A \$2,000,000 operating line of credit, secured by property, with a variable interest rate. Agreement expires November 2013. Interest rates at June 30, 2013, were 3.25%.	1,120,000	915,000
Two automobile financing loans, secured by the purchased vehicles, with 2.9% and 0% interest rates, respectively, expiring in 2015.	<u>23,649</u>	<u>35,233</u>
	<u>\$ 7,567,771</u>	<u>\$ 7,525,017</u>

The annual loan payments are as follows:

<u>Year Ending June 30,</u>	
2014	\$ 7,555,882
2015	8,959
2016	<u>2,930</u>
	<u>\$ 7,567,771</u>

From March 31, 2012 to March 31, 2013, the Mission was not in compliance with the bank's fixed charge coverage ratio loan covenant. As of June 30, 2013, the Mission was in compliance with the 8th amendment to the revolving credit agreement dated June 6, 2013 that waived the Mission's requirement to determine the fixed charge coverage ratio. This amendment expires in November 2013 and the ratio will be evaluated. Since the Mission is not expected to be in compliance as of September 30, 2013, the entire balance due the bank is shown as due during the next year.

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2013 and 2012

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

	June 30,	
	2013	2012
Exodus endowment earnings	\$ 243,737	\$ 187,243
Split interest agreements	480,866	490,150
Women's center - pledge receivable (note 2)	6,487,193	3,800,000
Other	183,267	83,283
	<u>\$ 7,395,063</u>	<u>\$ 4,560,676</u>

7. 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 assist graduates in the transition back into society. As required by U.S. 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, 2013 and 2012

7. PERMANENTLY RESTRICTED NET ASSETS, continued:

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF JUNE 30, 2013

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	\$ 243,737	\$ 529,346	\$ 773,083

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Temporarily restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 187,243	\$ 529,346	\$ 716,589
Investment income	71,964	-	71,964
Endowment assets expended	(15,470)	-	(15,470)
Endowment net assets, end of year	\$ 243,737	\$ 529,346	\$ 773,083

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

	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

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2013 and 2012

7. 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. GAAP, no deficiencies of this nature were reported as of June 30, 2013 and 2012.

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.

8. GIFT-IN-KIND ACTIVITY:

Gift-in-kind activity consists of:

	June 30,	
	2013	2012
Food	\$ 640,931	\$ 336,780
Clothing	481,332	442,110
Linens	32,993	14,623
Other	190,134	113,233
	<u>\$ 1,345,390</u>	<u>\$ 906,746</u>

LOS ANGELES MISSION, INC.

Notes to Financial Statements

June 30, 2013 and 2012

9. OPERATING LEASES:

The Mission leases office equipment with total monthly payments of approximately \$3,400, maturing from October 2015 to December 2015. The Mission previously leased warehouse space with monthly payments of approximately \$11,000. The warehouse lease ended November 2011.

Total lease expense was \$48,488 and \$102,303 for the years ended June 30, 2013 and 2012, respectively.

The future minimum payments are as follows:

<u>Year Ending June 30,</u>	
2014	\$ 43,529
2015	43,529
2016	<u>21,677</u>
	<u>\$ 108,735</u>

10. 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 5. 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, 2027; and December 31, 2028, respectively. As of June 30, 2013, the unamortized contingent liability was \$2,411,000 and the Mission is in compliance with the terms of the grants.

11. 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, 2013, 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 Mission previously matched 50% of the first 6% of employee contributions. Employees are fully vested in the Plan after two years of service. During the year ended June 30, 2013, the Mission suspended employer contributions to the plan. Retirement expense for the years ended June 30, 2013 and 2012, was \$43,237 and \$69,251 respectively.

LOS ANGELES MISSION, INC.

Notes to Financial Statements

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12. RELATED PARTY TRANSACTIONS:

A board member received remuneration from the Mission for services rendered as a guest speaker for a graduation ceremony and for travel and lodging expenses to attend board meetings. The honorarium paid and the expenses reimbursed totaled \$2,024 and \$2,390 for the years ended June 30, 2013 and 2012, respectively.

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 Mission provided LACHC with support in the amount of \$110,000 and \$106,620 for the years ended June 30, 2013 and 2012, respectively. Included in the support is office space that LACHC leases from the Mission. The office space lease was \$95,000 and \$91,620, respectively. LACHC was also granted services from the Mission which totaled \$15,000 and \$15,000 for the years ended June 30, 2013 and 2012, respectively. The administrative services covered in the agreement include accounting, food services, and custodial services.

13. SUBSEQUENT EVENT:

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.