



Consolidated Financial Statements  
With Independent Auditors' Report

June 30, 2018 and 2017

# 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, 2018 and 2017, 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 organization'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 organization'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, 2018 and 2017, 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 26, 2018

# LOS ANGELES MISSION, INC. AND SUBSIDIARY

## Consolidated Statements of Financial Position

|  | June 30,          |                   |
|--|-------------------|-------------------|
|  | 2018              | 2017              |
| <b>ASSETS:</b>                                   |                   |                   |
| Cash and cash equivalents                        | \$ 372,529        | \$ 503,231        |
| Accounts and other receivables                   | 59,975            | 128,643           |
| Prepaid expenses and other assets                | 423,823           | 233,971           |
| Investments                                      | 2,593,830         | 4,513,514         |
| Gift-in-kind inventory                           | 220,474           | 242,853           |
| Estate and trust receivables                     | 343,836           | 811,700           |
| Beneficial interest in trust held by others      | 185,901           | 176,241           |
| Pledge and grants receivable                     | 8,832,000         | 9,025,352         |
| Land, buildings, and equipment - net             | 18,752,058        | 19,122,976        |
| <br>Total Assets                                 | <br>\$ 31,784,426 | <br>\$ 34,758,481 |
| <br><b>LIABILITIES AND NET ASSETS:</b>           |                   |                   |
| Accounts payable                                 | \$ 568,444        | \$ 617,168        |
| Accrued expenses                                 | 427,503           | 450,438           |
| Deferred revenue                                 | -                 | 10,000            |
| Amounts held for others                          | 7,488             | 7,488             |
| Notes payable                                    | 4,946,355         | 6,146,580         |
|  | 5,949,790         | 7,231,674         |
| <br>Net assets:                                  |                   |                   |
| Unrestricted:                                    |                   |                   |
| Undesignated                                     | 297,608           | 1,111,183         |
| Board designated                                 | 1,516,400         | 2,095,186         |
| Net investment in land, buildings, and equipment | 13,805,703        | 13,370,815        |
|  | 15,619,711        | 16,577,184        |
| Temporarily restricted                           | 9,685,579         | 10,420,277        |
| Permanently restricted                           | 529,346           | 529,346           |
| Total net assets                                 | 25,834,636        | 27,526,807        |
| <br>Total Liabilities and Net Assets             | <br>\$ 31,784,426 | <br>\$ 34,758,481 |

See notes to financial statements

# LOS ANGELES MISSION, INC. AND SUBSIDIARY

## Consolidated Statements of Activities

|  | Year Ended June 30, 2018 |                           |                           |                      | Year Ended June 30, 2017 |                           |                           |                      |
|--|--------------------------|---------------------------|---------------------------|----------------------|--------------------------|---------------------------|---------------------------|----------------------|
|  | Unrestricted             | Temporarily<br>Restricted | Permanently<br>Restricted | Total                | Unrestricted             | Temporarily<br>Restricted | Permanently<br>Restricted | Total                |
| OPERATING:   |                          |                           |                           |                      |                          |                           |                           |                      |
| SUPPORT, REVENUE, AND RECLASSIFICATIONS:             |                          |                           |                           |                      |                          |                           |                           |                      |
| Contributions  | \$ 10,693,344            | \$ 39,609                 | \$ -                      | \$ 10,732,953        | \$ 10,495,746            | \$ 1,147,449              | \$ -                      | \$ 11,643,195        |
| Gift-in-kind activity                                | 1,030,416                | -                         | -                         | 1,030,416            | 1,318,961                | -                         | -                         | 1,318,961            |
| Investment income                                    | 126,889                  | 39,926                    | -                         | 166,815              | 253,945                  | 70,458                    | -                         | 324,403              |
| Sales  | 49,645                   | -                         | -                         | 49,645               | 22,285                   | -                         | -                         | 22,285               |
| Other revenue  | 461,974                  | -                         | -                         | 461,974              | 381,707                  | -                         | -                         | 381,707              |
| Net assets released from restrictions:               |                          |                           |                           |                      |                          |                           |                           |                      |
| Satisfaction of purpose and time restrictions        | 814,233                  | (814,233)                 | -                         | -                    | 691,916                  | (691,916)                 | -                         | -                    |
| <b>Total Support, Revenue, and Reclassifications</b> | <b>13,176,501</b>        | <b>(734,698)</b>          | <b>-</b>                  | <b>12,441,803</b>    | <b>13,164,560</b>        | <b>525,991</b>            | <b>-</b>                  | <b>13,690,551</b>    |
| EXPENSES:  |                          |                           |                           |                      |                          |                           |                           |                      |
| Program ministries                                   | 8,361,193                | -                         | -                         | 8,361,193            | 8,537,488                | -                         | -                         | 8,537,488            |
| Supporting activities:                               |                          |                           |                           |                      |                          |                           |                           |                      |
| General and administrative                           | 1,410,366                | -                         | -                         | 1,410,366            | 1,371,254                | -                         | -                         | 1,371,254            |
| Fundraising  | 4,308,587                | -                         | -                         | 4,308,587            | 4,061,477                | -                         | -                         | 4,061,477            |
| Direct donor benefits                                | 53,828                   | -                         | -                         | 53,828               | 41,729                   | -                         | -                         | 41,729               |
|  | <b>5,772,781</b>         | <b>-</b>                  | <b>-</b>                  | <b>5,772,781</b>     | <b>5,474,460</b>         | <b>-</b>                  | <b>-</b>                  | <b>5,474,460</b>     |
| <b>Total Expenses</b>                                | <b>14,133,974</b>        | <b>-</b>                  | <b>-</b>                  | <b>14,133,974</b>    | <b>14,011,948</b>        | <b>-</b>                  | <b>-</b>                  | <b>14,011,948</b>    |
| Change in Net Assets                                 | (957,473)                | (734,698)                 | -                         | (1,692,171)          | (847,388)                | 525,991                   | -                         | (321,397)            |
| Net Assets, Beginning of Year                        | 16,577,184               | 10,420,277                | 529,346                   | 27,526,807           | 17,424,572               | 9,894,286                 | 529,346                   | 27,848,204           |
| Net Assets, End of Year                              | <b>\$ 15,619,711</b>     | <b>\$ 9,685,579</b>       | <b>\$ 529,346</b>         | <b>\$ 25,834,636</b> | <b>\$ 16,577,184</b>     | <b>\$ 10,420,277</b>      | <b>\$ 529,346</b>         | <b>\$ 27,526,807</b> |

See notes to financial statements

# LOS ANGELES MISSION, INC. AND SUBSIDIARY

## Consolidated Statements of Functional Expenses

|  | Year Ended June 30, 2018 |                               |                     |                      | Year Ended June 30, 2017 |                               |                     |                      |
|--|--------------------------|-------------------------------|---------------------|----------------------|--------------------------|-------------------------------|---------------------|----------------------|
|  | Program<br>Ministries    | Support Activities            |                     |                      | Program<br>Ministries    | Support Activities            |                     |                      |
|  |                          | General and<br>Administrative | Fundraising         | Total                |                          | General and<br>Administrative | Fundraising         | Total                |
| Salaries and wages                     | \$ 2,566,651             | \$ 658,837                    | \$ 759,014          | \$ 3,984,502         | \$ 2,523,630             | \$ 623,649                    | \$ 783,155          | \$ 3,930,434         |
| Donor appeals fundraising costs        | -                        | -                             | 1,136,536           | 1,136,536            | -                        | -                             | 1,335,394           | 1,335,394            |
| Donor acquisition fundraising costs    | -                        | -                             | 1,696,729           | 1,696,729            | -                        | -                             | 1,340,426           | 1,340,426            |
| Professional services                  | 954,441                  | 170,363                       | 244,194             | 1,368,998            | 928,664                  | 192,606                       | 170,455             | 1,291,725            |
| Depreciation                           | 961,219                  | 23,557                        | 85,924              | 1,070,700            | 977,556                  | 22,541                        | 19,196              | 1,019,293            |
| Gift-in-kind clothing, food, and other | 1,052,797                | -                             | -                   | 1,052,797            | 1,279,659                | -                             | -                   | 1,279,659            |
| Employee benefits                      | 608,429                  | 151,632                       | 189,555             | 949,616              | 613,192                  | 138,503                       | 203,394             | 955,089              |
| Utilities                              | 486,633                  | 14,625                        | 12,696              | 513,954              | 444,000                  | 12,763                        | 11,728              | 468,491              |
| Repairs and maintenance                | 500,817                  | 10,373                        | 6,977               | 518,167              | 476,114                  | 11,436                        | 10,144              | 497,694              |
| Office expenses                        | 130,514                  | 192,468                       | 126,208             | 449,190              | 123,530                  | 196,756                       | 143,891             | 464,177              |
| Other expenses                         | 124,110                  | 113,184                       | 79,749              | 317,043              | 199,098                  | 91,208                        | 61,900              | 352,206              |
| Interest                               | 236,225                  | 7,775                         | 6,750               | 250,750              | 242,106                  | 7,598                         | 6,982               | 256,686              |
| Shelter and rehab food costs           | 148,126                  | -                             | -                   | 148,126              | 230,108                  | -                             | -                   | 230,108              |
| Occupancy                              | 164,269                  | 6,193                         | 5,888               | 176,350              | 149,120                  | 4,963                         | 4,425               | 158,508              |
| Shelter and rehab program costs        | 196,637                  | -                             | -                   | 196,637              | 136,630                  | -                             | -                   | 136,630              |
| Insurance                              | 80,353                   | 51,330                        | 1,110               | 132,793              | 68,506                   | 60,132                        | 1,045               | 129,683              |
| Telecommunication                      | 80,497                   | 2,580                         | 4,026               | 87,103               | 85,106                   | 2,886                         | 6,274               | 94,266               |
| Trucks and vans operating costs        | 47,631                   | -                             | -                   | 47,631               | 43,811                   | -                             | -                   | 43,811               |
| Conferences, memberships, and dues     | 21,844                   | 7,449                         | 7,059               | 36,352               | 16,658                   | 6,213                         | 4,797               | 27,668               |
|  | <u>\$ 8,361,193</u>      | <u>\$ 1,410,366</u>           | <u>\$ 4,362,415</u> | <u>\$ 14,133,974</u> | <u>\$ 8,537,488</u>      | <u>\$ 1,371,254</u>           | <u>\$ 4,103,206</u> | <u>\$ 14,011,948</u> |

See notes to financial statements

# LOS ANGELES MISSION, INC. AND SUBSIDIARY

## Consolidated Statements of Cash Flows

|  | Year Ended June 30, |              |
|--|---------------------|--------------|
|  | 2018                | 2017         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                     |              |
| Change in net assets   | \$ (1,692,171)      | \$ (321,397) |
| Reconciliation of change in net assets to net cash provided by operating activities: |                     |              |
| Donated inventory  | (1,030,416)         | (1,318,961)  |
| Distributed inventory  | 1,052,795           | 1,277,609    |
| Depreciation   | 1,070,700           | 1,019,293    |
| Net realized and unrealized gain on investments                                      | (38,032)            | (181,344)    |
| Loss on assets held for sale   | 3,561               | -            |
| Collections on pledge receivable   | 400,000             | 400,000      |
| Amortization of discount on pledge receivable  | (206,648)           | (210,852)    |
| Net change in:   |                     |              |
| Accounts and other receivables   | 68,668              | (66,867)     |
| Estate and trust receivables   | 467,864             | (681,700)    |
| Prepaid expenses and other assets  | (189,852)           | (81,054)     |
| Beneficial interest in trust held by others  | (9,660)             | (15,242)     |
| Accounts payable   | (179,598)           | 194,511      |
| Accrued expenses   | (22,935)            | 15,912       |
| Deferred revenue   | (10,000)            | (70,000)     |
| Net Cash Used in Operating Activities  | (315,724)           | (40,092)     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                     |              |
| Investment additions   | (497,174)           | (2,749,046)  |
| Proceeds from sale of investments  | 2,454,890           | 1,146,358    |
| Purchases of fixed assets  | (577,469)           | (320,729)    |
| Proceeds from sale of fixed assets   | 5,000               | -            |
| Net Cash Provided by (Used in) Investing Activities                                  | 1,385,247           | (1,923,417)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                     |              |
| Addition to notes payable  | 1,690,839           | 394,419      |
| Payments on notes payable  | (2,891,064)         | (179,184)    |
| Net Cash Provided by (Used in) Financing Activities                                  | (1,200,225)         | 215,235      |
| Net Change in Cash and Cash Equivalents  | (130,702)           | (1,748,274)  |
| Cash and Cash Equivalents, Beginning of Year   | 503,231             | 2,251,505    |
| Cash and Cash Equivalents, End of Year   | \$ 372,529          | \$ 503,231   |
| <b>SUPPLEMENTAL DISCLOSURES:</b>   |                     |              |
| Cash paid for interest   | \$ 254,391          | \$ 256,586   |
| Assets acquired through non-cash transactions  | \$ 130,874          | \$ -         |

See notes to financial statements

# LOS ANGELES MISSION, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### 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, 2018 and 2017, the consolidated financial statements include the accounts of the Mission and Los Angeles Mission Foundation (the Foundation), collectively known as the Organization.

The Foundation 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 Foundation is subject to federal income tax on any unrelated business taxable income. In addition the Foundation is not classified as a private foundation within the meaning of Section 509(c) of the IRC.

### 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. As of June 30, 2018 and 2017, the Organization's cash balances did not exceed federally insured limits.

# LOS ANGELES MISSION, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### 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. Except for the cash and cash equivalents included in the investment portfolios, all of the investments are reported at fair value based upon quoted prices in active markets for identical assets, which is Level 2 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 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 AND GRANT 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, 2018 and 2017, a discount rate of 2.30% was applied against the gift. Management believes the pledge will be paid in full so there is no allowance for uncollectible amounts at either June 30, 2018 nor 2017.

#### 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, 2018 and 2017

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### 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, 2018 and 2017

### 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, 2018 and 2017.

#### 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, 2018 and 2017

3. INVESTMENTS:

Investments consist of:

|                                   | June 30,     |              |
|-----------------------------------|--------------|--------------|
|                                   | 2018         | 2017         |
| Cash and cash equivalents         | \$ 102,389   | \$ 140,960   |
| Mutual funds:                     |              |              |
| Fixed income                      | 343,349      | 2,771,843    |
| Bond Funds                        | 958,684      | -            |
| Equity Funds                      | 445,501      | -            |
| Equity:                           |              |              |
| Domestic                          | 399,878      | 310,930      |
| Emerging markets                  | -            | 72,019       |
| Global                            | 8,546        | 294,843      |
| Total mutual funds                | 2,155,958    | 3,449,635    |
| Common stocks and bonds:          |              |              |
| Consumer discretionary            | 27,634       | 103,207      |
| Consumer staples                  | 14,804       | -            |
| Energy                            | 16,570       | 13,371       |
| Financial                         | 36,869       | 162,709      |
| Health care                       | 41,880       | 140,590      |
| Industrial                        | 36,302       | 52,796       |
| Real estate securities            | -            | 138,462      |
| Technology and telecommunications | 78,905       | 177,864      |
| Utilities and materials           | 11,898       | 47,889       |
| Other                             | 70,621       | 6,430        |
| Services                          | -            | 79,601       |
| Total common stocks and bonds     | 335,483      | 922,919      |
| Total investments                 | \$ 2,593,830 | \$ 4,513,514 |

# LOS ANGELES MISSION, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

3. INVESTMENTS, continued:

Investment and interest income consists of:

|  | June 30,   |            |
|--|------------|------------|
|  | 2018       | 2017       |
| Interest and dividends                       | \$ 128,783 | \$ 143,059 |
| Realized and unrealized gains on investments | 38,032     | 181,344    |
|  | \$ 166,815 | \$ 324,403 |

4. PLEDGE RECEIVABLE:

The pledge receivable consists of:

|   | June 30,     |              |
|---|--------------|--------------|
|   | 2018         | 2017         |
| 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                          | 10,397,372   | 10,800,000   |
| Less discount for present value of cash flows | (3,565,372)  | (3,774,648)  |
|   | \$ 8,832,000 | \$ 9,025,352 |

5. LAND, BUILDINGS, AND EQUIPMENT - NET:

Land, buildings, and equipment - net consist of:

|   | June 30,      |               |
|---|---------------|---------------|
|   | 2018          | 2017          |
| Land  | \$ 3,673,886  | \$ 3,673,886  |
| Buildings and improvements                          | 34,414,799    | 33,803,311    |
| Furniture and equipment                             | 4,014,452     | 3,645,880     |
| Vehicles  | 256,609       | 309,664       |
| Land, buildings, and equipment - at cost            | 42,359,746    | 41,432,741    |
| Less accumulated depreciation                       | (23,607,688)  | (22,644,624)  |
|   | 18,752,058    | 18,788,117    |
| Construction in process                             | -             | 334,859       |
| Land, buildings, and equipment - net                | 18,752,058    | 19,122,976    |
| Less debt secured by land, buildings, and equipment | (4,946,355)   | (5,752,161)   |
| Net investment in land, buildings, and equipment    | \$ 13,805,703 | \$ 13,370,815 |

# LOS ANGELES MISSION, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

6. NOTES PAYABLE:

Notes payable consist of:

|   | June 30,     |              |
|---|--------------|--------------|
|   | 2018         | 2017         |
| Note payable to a bank, secured by property, due in monthly principal and interest payments of \$36,249. The interest rate is fixed at 4.31% with any unpaid balance due December 2021. | \$ 4,946,355 | \$ 5,752,161 |
| Amount borrowed on margin with a financial institution, due upon demand, with an interest rate of 1.71%.  | -            | 394,419      |
|   | \$ 4,946,355 | \$ 6,146,580 |

The annual principal payments are as follows:

| Year Ending June 30, |              |
|----------------------|--------------|
| 2019                 | \$ 223,265   |
| 2020                 | 232,666      |
| 2021                 | 243,593      |
| 2022                 | 4,246,831    |
|                      | \$ 4,946,355 |

No interest was capitalized during the years ended June 30, 2018 and 2017, respectively.

### LOAN COVENANTS

In conjunction with the note payable, the Organization is required to comply with certain reporting covenants. 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 June 30, 2018.

# LOS ANGELES MISSION, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

7. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

|  | June 30,            |                      |
|--|---------------------|----------------------|
|  | 2018                | 2017                 |
| Exodus Fund endowment earnings               | \$ 297,326          | \$ 297,372           |
| Beneficial interest in trusts held by others | 185,901             | 176,241              |
| Women's center - pledge receivable (note 2)  | 8,832,000           | 9,025,352            |
| Time restrictions                            | 300,000             | 823,000              |
| Other  | 70,352              | 98,312               |
|  | <u>\$ 9,685,579</u> | <u>\$ 10,420,277</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.

#### 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

# LOS ANGELES MISSION, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

8. PERMANENTLY RESTRICTED NET ASSETS, continued:

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF JUNE 30, 2018

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

|                                  | Temporarily<br>restricted | Permanently<br>Restricted | Total      |
|----------------------------------|---------------------------|---------------------------|------------|
| Donor-restricted endowment funds | \$ 297,326                | \$ 529,346                | \$ 826,672 |

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

|   | Temporarily<br>restricted | Permanently<br>Restricted | Total      |
|---|---------------------------|---------------------------|------------|
| Endowment net assets, beginning of year | \$ 297,372                | \$ 529,346                | \$ 826,718 |
| Investment income                       | 39,926                    | -                         | 39,926     |
| Appropriated for expenditure            | (39,972)                  | -                         | (39,972)   |
| Endowment net assets, end of year       | \$ 297,326                | \$ 529,346                | \$ 826,672 |

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF JUNE 30, 2017

|                                  | Temporarily<br>restricted | Permanently<br>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<br>restricted | Permanently<br>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, 2018 and 2017

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 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, 2018 and 2017.

### 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.

9. GIFT-IN-KIND ACTIVITY:

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

|          | June 30,            |                     |
|----------|---------------------|---------------------|
|          | 2018                | 2017                |
| Food     | \$ 516,955          | \$ 485,753          |
| Clothing | 343,732             | 618,121             |
| Linens   | 12,275              | 14,276              |
| Other    | 157,454             | 200,811             |
|          | <u>\$ 1,030,416</u> | <u>\$ 1,318,961</u> |

# LOS ANGELES MISSION, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### 10. OPERATING LEASES:

The Organization leases office equipment with total monthly payments of approximately \$2,100, maturing through 2021. Total lease expense was \$33,284 and \$36,676 for the years ended June 30, 2018 and 2017, respectively.

The future minimum payments are as follows:

| <u>Year Ending June 30,</u> |                  |
|-----------------------------|------------------|
| 2019                        | \$ 21,066        |
| 2020                        | 19,901           |
| 2021                        | <u>10,658</u>    |
|                             | <u>\$ 51,625</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. The Promissory Notes mature on March 15, 2024 and December 31, 2028. As of June 30, 2018 and 2017, the unamortized contingent liability was \$1,411,000 and the Organization was in compliance with the terms of the grants, respectively.

### 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, 2018, 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, 2018 and 2017, were \$73,737 and \$71,785, 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, 2018 and 2017, LACHC paid \$124,404 and \$121,212 for office space and services, respectively.

# LOS ANGELES MISSION, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

14. SUBSEQUENT EVENTS:

Subsequent events were evaluated through October 26, 2018, which is the date the consolidated financial statements were available to be issued.