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CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors,

The Midnight Mission
Los Angeles, California

We have audited the accompanying statement of financial position of The Midnight Mission (a Not-for-Profit Corporation) as of December 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Mission's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Mission's 2010 financial statements, and in our report dated March 2, 2011, we expressed an unqualified opinion on those financial statements.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 The Midnight Mission as of December 31, 2011, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Lee, Sperling Hisamune/Accountancy Corporation

Glendale, California

March 21, 2012

THE MIDNIGHT MISSION
(a Not-for-Profit Corporation)

STATEMENT OF FINANCIAL POSITION -- DECEMBER 31, 2011
 (with Comparative Summarized Information as of December 31, 2010)

ASSETS

	<u>2011</u>	<u>(Comparative Summarized Information) 2010</u>
CURRENT ASSETS:		
Cash	\$ 473,840	\$ 328,832
Investments (Note 2)	21,152,385	22,858,539
Contribution and other receivables	234,323	463,761
Government grant receivable	30,942	30,942
Prepaid expenses and other assets	138,350	99,390
Total current assets	22,029,840	23,781,464
RECEIVABLES UNDER TRUST AGREEMENTS (Note 3)	325,639	329,863
LAND, BUILDINGS, AND EQUIPMENT, NET (Note 5)	22,736,790	23,449,404
INVESTMENTS HELD IN TRUST (Note 7)	520,085	233,800
INVESTMENTS HELD FOR ENDOWMENT (Note 10)	50,000	334,530
Total assets	\$ 45,662,354	\$ 48,129,061

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 155,954	\$ 103,421
Accrued expenses	148,708	149,305
Total current liabilities	304,662	252,726
LONG-TERM LIABILITIES:		
Deferred compensation (Note 6)	482,157	469,376
Amounts held for others	276,000	-
Note payable (Note 8)	1,000,000	1,000,000
Total long-term liabilities	1,758,157	1,469,376
Total liabilities	2,062,819	1,722,102
NET ASSETS (Note 9)		
Unrestricted	42,971,419	45,751,096
Temporarily restricted	578,116	329,863
Permanently restricted	50,000	326,000
Total liabilities and net assets	\$ 45,662,354	\$ 48,129,061

See accompanying notes to financial statements.

THE MIDNIGHT MISSION
(a Not-for-Profit Corporation)

STATEMENT OF ACTIVITIES -- YEAR ENDED DECEMBER 31, 2011
(with Comparative Summarized Information -- Year Ended December 31, 2010)

	2011			(Comparative Summarized Information) 2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES, GAINS, AND OTHER SUPPORT:				
Contributions	\$ 2,718,327	\$ 290,000	\$ -	\$ 3,008,327
Government grants	186,666	-	-	186,666
Legacies and bequests	782,324	-	-	782,324
Other revenue	101,300	-	-	101,300
Interest and dividend income	666,138	-	-	666,138
Net realized and unrealized gains (losses) on investments	(1,281,893)	-	-	(1,281,893)
Change in value of split-interest agreements	-	15,466	-	15,466
Net assets released from restrictions and designation -				
Amounts collected on receivables under trust agreements	19,690	(19,690)	-	-
Satisfaction of program restriction	37,523	(37,523)	-	-
Total revenues, gains, and other support	<u>3,230,075</u>	<u>248,253</u>	<u>-</u>	<u>3,478,328</u>
EXPENSES:				
Program services	4,632,590	-	-	4,632,590
Supporting services -				
Administrative and general	721,235	-	-	721,235
Fundraising	655,927	-	-	655,927
Total expenses	<u>6,009,752</u>	<u>-</u>	<u>-</u>	<u>6,009,752</u>
CHANGE IN NET ASSETS	<u>(2,779,677)</u>	<u>248,253</u>	<u>-</u>	<u>(2,531,424)</u>
NET ASSETS, beginning of year	45,751,096	329,863	326,000	47,058,931
Prior period adjustment (Note 14)	-	-	(276,000)	-
Net assets, end of year	<u>\$ 42,971,419</u>	<u>\$ 578,116</u>	<u>\$ 50,000</u>	<u>\$ 43,599,535</u>

See accompanying notes to financial statements.

THE MIDNIGHT MISSION
(a Not-for-Profit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES - YEAR ENDED DECEMBER 31, 2011
(with Comparative Summarized Information -- Year Ended December 31, 2010)

	Program Services			Administrative and		Fund-Raising	Total	(Comparative Summarized Information) 2010
	Mission	Family Housing	Subtotal	General				
EXPENSES:								
Salaries and benefits	\$ 1,971,756	\$ 182,213	\$ 2,153,969	\$ 523,081	\$ 296,027	\$ 2,973,077	\$ 2,759,918	
Work therapy stipend	115,553	-	115,553	1,050	-	116,603	113,715	
Direct aid and housing assistance	22,846	5,561	28,407	42	-	28,449	24,378	
Food	128,081	266	128,347	-	-	128,347	104,046	
Laundry, cleaning and household supplies	69,726	352	70,078	-	-	70,078	68,096	
Telephone and utilities	366,369	27,335	393,704	29,185	1,120	424,009	410,193	
Repairs and maintenance	129,588	4,855	134,443	6,526	1,200	142,169	111,343	
Professional fees	5,726	40,286	46,012	27,723	106	73,841	63,558	
Supplies	15,151	147	15,298	1,199	578	17,075	16,737	
Postage	3,465	-	3,465	1,759	26,453	31,677	41,094	
Printing and publication	3,075	8	3,083	1,102	81,359	85,544	53,980	
Fundraising events	-	-	-	-	190,175	190,175	268,238	
Depreciation	692,183	59,822	752,005	16,561	-	768,566	790,461	
Insurance	72,098	7,505	79,603	4,093	-	83,696	188,462	
Contract labor	212,310	-	212,310	33,553	-	245,863	233,489	
Other expense	457,052	39,261	496,313	75,361	58,909	630,583	466,370	
	<u>\$ 4,264,979</u>	<u>\$ 367,611</u>	<u>\$ 4,632,590</u>	<u>\$ 721,235</u>	<u>\$ 655,927</u>	<u>\$ 6,009,752</u>	<u>\$ 5,714,078</u>	

See accompanying notes to financial statements.

THE MIDNIGHT MISSION
(a Not-for-Profit Corporation)

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011

(with Comparative Summarized Information - Year Ended December 31, 2010)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (2,531,424)	\$ (651,972)
Adjustments to reconcile change in net assets to net cash used in operating activities -		
Depreciation	768,566	790,461
Net realized and unrealized (gains) losses on investments	1,281,893	(1,196,625)
Change in value of split-interest agreement	(15,466)	(30,104)
Contributions restricted for long-term purposes	-	(50,000)
Changes in operating assets and liabilities -		
Receivables under trust agreements	19,690	23,889
Contributions receivable	229,438	130,892
Government grant receivable	-	(19,350)
Prepaid expenses	(38,960)	27,645
Accounts payable	52,533	(45,838)
Accrued expenses	(597)	(22,305)
Deferred compensation	12,781	39,870
Net cash used in operating activities	<u>(221,546)</u>	<u>(1,003,437)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	23,828,015	6,731,324
Purchase of investments	(23,405,510)	(6,179,583)
Acquisition of property and equipment	(55,951)	(71,125)
Net cash provided by investing activities	<u>366,554</u>	<u>480,616</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for:		
Investment in permanent endowment	-	50,000
Net cash provided by financing activities	<u>-</u>	<u>50,000</u>
Net increase/(decrease) in cash and cash equivalents	145,008	(472,821)
CASH, beginning of year	<u>328,832</u>	<u>801,653</u>
Cash, end of year	<u>\$ 473,840</u>	<u>\$ 328,832</u>

See accompanying notes to financial statements.

THE MIDNIGHT MISSION
(a Not-for-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

Note 1 -- Summary of Significant Accounting Policies

The Midnight Mission (the "Mission") is a not-for-profit, secular organization founded in the city of Los Angeles in 1914. The Mission seeks to assist individuals who reside in and around the "skid row" area of downtown Los Angeles as well as referrals from the Los Angeles County area. The Mission operates three programs: Guest Services that provides approximately 900,000 meals per year along with supportive services including showers, restrooms, medical care, hygiene kits, food bags, clothing, and emergency shelter for street residents and nearby low-income housing; Drug and Alcohol Recovery Program for men with 278 beds within the main facility including case management, education, employment training, and support groups; and Family Transitional Housing in Inglewood with 37 beds in eleven apartments for homeless families and children with counseling, education, employment training, and financial literacy programs.

(a) **Basis of Presentation**

The accompanying financial statements include a statement of financial position that present the amounts for each of three classes of net assets – unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets – based on the existence or absence of donor restrictions, and a statement of activities that reflects the changes in those categories of net assets.

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(b) **Comparative Summarized Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Therefore, such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Mission's financial statements for the year ended December 31, 2010, from which the summarized information was derived. Certain amounts in the 2010 financial statements and accompanying footnotes have been reclassified to conform to the 2011 presentation.

(c) **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE MIDNIGHT MISSION
(a Not-for-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2011

Note 1 -- Summary of Significant Accounting Policies (Continued)

- (d) Income Taxes
The Mission has been designated as tax exempt by the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code and is also exempt from California state tax.
- (e) Cash and Cash Equivalents
The Mission considers as cash equivalents all highly liquid investments, including money market funds, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase. Cash restricted for the endowment fund are reported as investments instead of cash because the Mission holds those funds as an endowment.
- (f) Investments
The Mission's investment policy is to adhere to high standards of quality in the selection of all types of investments, with reasonable diversification to be maintained at all times. The Mission's investments consist of cash and cash equivalents, mutual funds, exchange traded funds, and debt securities. Investments are reported at fair value, with realized and unrealized gains and losses included in the statement of activities. Fair value is based upon quoted market prices in active markets.
- Dividends and interest income are accrued when earned. Dividends and interest income from unrestricted investments are recorded as unrestricted. Income from permanently restricted investments is recorded as unrestricted, as specified by the donor. Unrealized gains and losses on permanently restricted investments are reported in unrestricted net assets.
- (g) Land, Buildings, and Equipment
Land, buildings, and equipment are recorded at cost or, for those assets acquired by gift or bequest, the estimated fair value at the date of contribution. Depreciation is computed using the straight-line method, based on the estimated useful lives of the various classes of assets, ranging from 3 to 50 years.
- (h) Revenue Recognition
Public support and revenue are recorded using the accrual method. All gifts, bequests, and other public support are included in unrestricted net assets unless specifically restricted by the donor, the terms of the gift, or grant instrument. The Mission reports gifts of cash and other assets that are received with donor restrictions that limit their use or require the passage of time as either temporarily or permanently restricted. Gifts permanently restricted by the donor, such as endowments whereby the donor has prohibited the use of the corpus, are recorded as permanently restricted net assets with earnings included as unrestricted net assets, unless specifically restricted by the donor.

THE MIDNIGHT MISSION
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

- (i) Contributions
Unconditional promises to give are recognized as revenues or gains in the period received at net present value, decreases of liabilities or expenses depending on the form of benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

- (j) Functional Allocation of Expenses
The cost of providing the various programs and other activities has been reported in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

- (k) Endowment Funds
The Mission adopted guidance on *Endowment Funds of Not-for-Profit Organizations* (FASB ASC 958-205-45) which provides guidance concerning the net asset classification of donor-restricted endowments funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and requires enhanced disclosures for all endowment funds.

The Mission has interpreted UPMIFA as requiring the preservation of the purchasing power and of the original donor-restricted endowment fund absent explicit donor stipulation to the contrary. As a result of this interpretation, the Mission classifies as permanently restricted net assets (1) the original value of the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, if any and (3) accumulation to the permanent endowment made in accordance with the direction, if any, of the applicable donor gift instrument at the time the accumulation is added to the fund. Investment returns earned that increase the value of the permanently restricted endowment fund are classified as unrestricted or temporarily restricted net assets until appropriated for expenditure in accordance with the Mission's spending policy as described in Note 10.

THE MIDNIGHT MISSION
(a Not-for-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2011

Note 2 -- Investments

Investments are carried at market value with the unrealized and realized gains and losses reflected in the statement of activities. Investments include those held in trust of \$520,085 and held for endowment of \$50,000 as of December 31, 2011. The composition of investments as of December 31, 2011 is as follows:

	<u>Cost</u>	<u>Carrying Value</u>	<u>Accumulated Unrealized Gains(Losses)</u>
Cash and cash equivalents	\$ 838,840	\$ 838,840	\$ -
Equity securities:			
Mutual and exchange traded funds	16,756,242	14,979,581	(1,776,661)
Debt securities:			
Mutual funds	<u>6,047,701</u>	<u>5,904,049</u>	<u>(143,652)</u>
Total investments	<u>\$ 23,642,783</u>	<u>\$ 21,722,470</u>	<u>\$(1,920,313)</u>

Cash and cash equivalents include money market securities and cash on hand held by investment managers, which will be invested based on the Mission's investment strategy.

Note 3 -- Receivables Under Trust Agreements

The Mission has been named as the beneficiary of, and receives income from, several trust agreements for which a third party has been named the trustee. The Mission has recorded in the statement of financial position the present value of all future and residual amounts to be received based upon the life expectancies of the primary beneficiaries. The interest rates used in determining the present values were the Mission's risk-free rate of return at the date of the gift. Changes in actuarial assumptions are reflected in the statement of activities as a change in value of the split-interest agreements. At December 31, 2011, the present value of the total future amounts to be received was \$325,639.

Note 4 -- Fair Value Measurements

The Mission has determined the fair value of certain assets in accordance with the Fair Value Measurements and Disclosures (FASB ASC 820-10). Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Fair value for the receivables under trust agreements (level 3) was determined by calculating the present value of the future distributions expected to be received, and residual values, using probability of collection and discount rates ranging from 6.25% to 8.0%. Valuation techniques utilized to determine fair value are consistently applied.

THE MIDNIGHT MISSION
(a Not-for-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2011

Note 4 -- Fair Value Measurements (Continued)

The following table presents the Mission's fair value hierarchy for the assets measured at fair value on a recurring basis at of December 31, 2011:

	Fair Value Measurements at Reporting Date Using			
Description	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level2)	Significant Unobservable Inputs (Levels 3)
Recurring basis:				
Assets –				
Cash and cash equivalents	\$ 838,840	\$ 838,840	\$ -	\$ -
Equity securities	14,979,581	14,979,581	-	-
Debt securities	5,904,049	5,904,049	-	-
Receivables under trust agreements (Note 4)	<u>325,639</u>	<u>-</u>	<u>-</u>	<u>325,639</u>
Total	<u>\$ 22,048,109</u>	<u>\$ 21,722,470</u>	<u>\$ -</u>	<u>\$ 325,639</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs:

Fair value measurements using significant unobservable inputs (Level 3)

	<u>Receivables Under Trust Agreements</u>
January 1, 2010	\$ 329,863
Total decreases	15,466
Total collections	<u>(19,690)</u>
December 31, 2011	<u>\$ 325,639</u>

THE MIDNIGHT MISSION
(a Not-for-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2011

Note 5 -- Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following at December 31, 2011.

Land and development cost	\$ 4,201,365 ✓
Buildings and improvements	21,645,831 ✓
Furniture, fixtures, and equipment	2,765,887 ✓
Automotive equipment	215,407
Construction in progress	<u>23,575 ✓</u>
	28,852,065
Less accumulated depreciation	<u>(6,115,275)</u>
Total	<u>\$ 22,736,790</u>

Note 6 -- Deferred Compensation Plans

The Mission has the following Deferred Compensation Plans:

- (a) The Mission is obligated under a deferred compensation arrangement whereby a long-term employee or his surviving spouse will receive \$25,000 a year upon his retirement. The payments will continue for the employees' lifetime and thereafter to his surviving spouse for her lifetime. The liability represents the present value of the future obligation. \$ 235,000
- (b) The Mission also maintains a 457(f) make-up plan and a deferred compensation plan which is intended to constitute eligible deferred compensation plan under Section 457(b) of the Internal Revenue Code. To be eligible to participate in the plans the employee must be a member of a select group of management and designated by the plan administrator. The Mission may make discretionary contributions to the plans. Currently, only one employee participates in these plans. The participant and the Mission have agreed to an annual, aggregate, future, contribution of \$16,000 to the plans. In 2011, the Mission funded \$15,500 into these trusts. The liability represents the present value of the obligation, including earnings on investments held in trust described in Note 7(a) as of December 31, 2011. 247,157
- \$ 482,157

THE MIDNIGHT MISSION
(a Not-for-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2011

Note 7 -- Investments Held in Trust and Amounts Held for Others

The Mission has the following investments held in trust as of December 31, 2011:

(a)	The Mission has established trusts to fund future obligations of the 457(f) make-up plan and deferred compensation plan referred in Note 6(b). Any assets placed in the trusts are subject to the claims of creditors in the event of insolvency or bankruptcy; participants are general creditors of the Mission as to their deferred compensation in the plans.	\$ 246,081
(b)	The Mission is named as a trustee of a charitable trust. The Mission is to receive \$500 per year from the trust. Amounts Held for Others as of December 31, 2011 include the obligation for the trust assets.	<u>274,004</u>
	Total	<u>\$ 520,085</u>

Note 8 -- Note Payable

The Mission received a Federal Home Loan Bank grant on April 28, 2006 in the amount of \$1,000,000 to support their affordable housing program. The grant is subject to certain restrictions and conditions during its fifteen-year term. In the event of the Mission's noncompliance, the full amount or a portion thereof is required to be repaid. The grant is secured by a trust deed on the Mission's main facility. Upon the termination of the set time period, May 1, 2021, the lender shall absolve obligations of repayment if the Mission has complied with all restrictions and conditions. If the obligation is not forgiven, interest shall accrue on any amount unpaid based on 5% per annum in excess of the US Treasury rate.

Note 9 -- Net Assets

Net assets consist of the following:

- (a) Unrestricted Net Assets
The unrestricted net assets are utilized to record contributions, investment income, and other forms of unrestricted revenue and expenditures related to the general operations of the Mission.

THE MIDNIGHT MISSION
(a Not-for-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2011

Note 9 -- Net Assets (Continued)

(b) **Temporarily Restricted Net Assets**

Temporarily restricted net assets are utilized to record resources received that are temporarily restricted as to use by the donor. When the restricted use has been fulfilled or expired with the passage of time, the net assets are released. Temporarily restricted net assets include receivables under trust agreements restricted for subsequent years.

Temporarily restricted net assets at December 31, 2011 are available for the following purposes or periods:

Outreach Project-Courtyard	\$ 52,477
Core support of Guest Service, Drug and Alcohol Recovery and Family Housing Programs	200,000
Operations (Receivables under Trust Agreements)	<u>325,639</u>
	<u>\$ 578,116</u>

Temporarily restricted net assets were released from restrictions by incurring expenses satisfying the restricted purpose specified by the donor and by collection of amounts receivable under trust agreements. They are as follows:

Outreach Project-Courtyard	\$ 37,523
Amounts collected on receivables under trust agreements	<u>19,690</u>
	<u>\$ 57,213</u>

(c) **Permanently Restricted Net Assets**

Permanently restricted net assets represent an investment in perpetuity from a donor. The income of which was expended to support the operations of the Mission.

Note 10 -- Donor-Restricted Net Assets

Unrestricted and Permanently Restricted Net Assets consist solely of a donor-restricted endowment, therefore do not include any funds functioning as endowments through designation by the board. The earnings allocated to the donor-restricted endowment funds support the Mission's purpose and are in accordance with the donor's stipulations.

From time to time, the fair value of the Donor-Restricted Endowment Fund may fall below the level the donor required the Mission to retain. In accordance with the guidance on Donor-Restricted Endowment Funds adopted by the Mission, deficiencies of this nature are allocated to Unrestricted Net Assets. There were no deficiencies as of December 31, 2011.

THE MIDNIGHT MISSION
(a Not-for-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2011

Note 10 -- Donor Restricted Net Assets (Continued)

The disclosures regarding the reconciliation of the beginning and ending balances of the Mission's donor-restricted endowment funds by net asset class are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds,			
December 31, 2010	\$ 8,530	\$ 326,000	\$ 334,530
Prior period adjustment to record trust liability	<u>(8,530)</u>	<u>(276,000)</u>	<u>(284,530)</u>
Restated balance as of December 31, 2010	<u>-</u>	<u>50,000</u>	<u>50,000</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>
Investment return –			
Investment income	1,500		1,500
Net appreciation/(depreciation)	<u>-</u>	<u>-</u>	<u>-</u>
Total investment returns	<u>1,500</u>	<u>-</u>	<u>1,500</u>
Amounts appropriated for expenditures	<u>(1,500)</u>	<u>-</u>	<u>(1,500)</u>
Donor-Restricted Endowment Funds,			
December 31, 2011	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>

Spending and Policy and How the Investment Objectives Relate to Spending Policy

The Mission's investment policy governs the management and oversight of the endowment funds. The policies set forth objectives, strategies, criteria for monitoring and control, responsibilities of the Finance and Asset Management Committee. The policies are intended to allow management, the Finance and Asset Management Committee, and the board to manage the investment on a total return basis, with emphasis on both the preservation of capital and current yield to maintain required distribution levels and maintain the purchasing power of endowed funds.

The policy of the Mission, over donor-restricted endowment funds, is to only invest in Treasuries and only interest income on such investments can be spent in accordance with the donors' stipulation. This is consistent with the Mission's objective to maintain the purchasing power of the endowed assets held in perpetuity, as well as the preservation of capital. The Mission considers the following factors in making a determination to appropriate funds for distribution:

1. The duration and preservation of the fund.
2. The purposes of the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Mission.
7. The investment policies of the Mission.

THE MIDNIGHT MISSION
(a Not-for-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2011

Note 11 -- Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Mission maintains its cash balances at financial institutions located in Southern California. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2011, the Mission's uninsured cash balances total approximately \$565,000.

Note 12 -- Commitments and Contingencies

Commitment and contingencies consist of the following:

(a) Lease Commitments

The Mission is committed under operating leases for facilities and equipment with terms expiring through August 2015.

Future minimum payments for the leases:

<u>Year Ended</u> <u>December 31,</u>	
2012	\$ 48,664
2013	43,956
2014	42,996
2015	11,859
2016	<u>1,800</u>
	<u>\$ 149,275</u>

(b) Legal Matters

In the ordinary course of operations, the Mission is subject to certain claims, lawsuits or other potential legal actions. In the opinion of management, there are no such matters that are likely to have a material effect on the financial statements.

(c) Beneficial Interest in Charitable Trusts

The Mission is periodically informed that it is a beneficiary of a charitable trust. As of December 31, 2011 the Mission has not recorded its beneficial interest for trusts in which it has been unable to obtain or confirm the fair value or terms of the trust agreement with the Trustee.

Note 13 -- Subsequent Events

Management has evaluated subsequent events through March 21, 2012, the date which the financial statements were available to be issued.

Note 14 -- Prior Period Adjustment

The financial statements include a correction to record a liability of \$276,000 for amounts received from a trust which was previously recorded as a permanently restricted donation.