

THE MIDNIGHT MISSION

**Report of Independent Auditors
and
Financial Statements**

For the Year Ended December 31, 2014

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
The Midnight Mission

We have audited the accompanying financial statements of The Midnight Mission, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 entity'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 entity'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.



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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Richardson Koutogouris Emerson LLP

September 22, 2015

THE MIDNIGHT MISSION

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2014

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	131,169
Restricted cash		215,716
Contributions and other receivables, net		255,811
Prepaid expenses and other current assets		<u>124,970</u>
Total current assets		727,666

INVESTMENTS 21,948,059

BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENTS 2,728,790

PROPERTY AND EQUIPMENT, net 21,455,563

Total assets \$ 46,860,078

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$	274,423
Participant savings liability		<u>215,716</u>
Total current liabilities		490,139

DEFERRED COMPENSATION 532,713

OBLIGATIONS UNDER SPLIT-INTEREST AGREEMENTS 659,790

NOTE PAYABLE 1,000,000

Total liabilities 2,682,642

COMMITMENTS AND CONTINGENCIES

NET ASSETS

Unrestricted	41,445,329
Temporarily restricted	2,682,107
Permanently restricted	<u>50,000</u>

Total net assets 44,177,436

Total liabilities and net assets \$ 46,860,078

THE MIDNIGHT MISSION**STATEMENT OF ACTIVITIES****FOR THE YEAR ENDED DECEMBER 31, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions	\$ 2,606,197	\$ 234,276	\$ -	\$ 2,840,473
Legacies and bequests	482,614	436,153	-	918,767
Gifts-in-kind	724,417	-	-	724,417
Foundation grants	347,260	137,290	-	484,550
Government grants	185,144	-	-	185,144
Other revenue	177,310	-	-	177,310
Interest and dividends, net	450,489	965	-	451,454
Realized and unrealized gains on investments	597,925	1,281	-	599,206
Change in value of split-interest agreements	-	20,023	-	20,023
Net assets released from restrictions:				
Programs	45,729	(45,729)	-	-
Time	115,522	(115,522)	-	-
Total revenues and support	<u>5,732,607</u>	<u>668,737</u>	<u>-</u>	<u>6,401,344</u>
EXPENSES				
Program services:				
Mission	6,080,142	-	-	6,080,142
Family housing	350,550	-	-	350,550
Support services:				
General and administrative	473,181	-	-	473,181
Fundraising and development	915,797	-	-	915,797
Total expenses	<u>7,819,670</u>	<u>-</u>	<u>-</u>	<u>7,819,670</u>
CHANGE IN NET ASSETS	(2,087,063)	668,737	-	(1,418,326)
NET ASSETS , beginning of year	<u>43,532,392</u>	<u>2,013,370</u>	<u>50,000</u>	<u>45,595,762</u>
NET ASSETS , end of year	<u>\$ 41,445,329</u>	<u>\$ 2,682,107</u>	<u>\$ 50,000</u>	<u>\$ 44,177,436</u>

THE MIDNIGHT MISSION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services			Support Services			Total
	Mission	Family Housing	Total Program Services	General and Administrative	Fundraising and Development	Total Support Services	
Salaries and benefits	\$ 2,989,784	\$ 230,840	\$ 3,220,624	\$ 361,839	\$ 483,059	\$ 844,898	\$ 4,065,522
Gifts-in-kind distribution	724,417	-	724,417	-	-	-	724,417
Telephone and utilities	586,435	27,421	613,856	63	780	843	614,699
Depreciation	467,427	27,823	495,250	61,211	-	61,211	556,461
Fundraising events	-	-	-	-	251,879	251,879	251,879
Contract labor	222,817	6,453	229,270	-	-	-	229,270
Food	182,238	931	183,169	-	-	-	183,169
Printing and publications	36,900	-	36,900	-	111,115	111,115	148,015
Repairs and maintenance	139,977	6,862	146,839	5,752	-	5,752	152,591
Work therapy stipend	142,443	-	142,443	-	2,778	2,778	145,221
Professional fees	75,445	31,583	107,028	25,559	-	25,559	132,587
Laundry, cleaning and household supplies	107,598	1,307	108,905	50	-	50	108,955
Insurance	76,418	6,196	82,614	9,294	11,360	20,654	103,268
Automobile	88,673	-	88,673	889	-	889	89,562
Equipment rental	78,047	2,572	80,619	4,430	176	4,606	85,225
Direct aid and housing assistance	58,822	4,387	63,209	-	-	-	63,209
Postage	8,888	-	8,888	971	21,307	22,278	31,166
Training and seminars	22,792	378	23,170	-	3,312	3,312	26,482
Taxes and licenses	22,641	1,312	23,953	-	-	-	23,953
Community relations	23,520	-	23,520	-	-	-	23,520
Bank charges	-	-	-	-	22,180	22,180	22,180
Office supplies	14,233	1,078	15,311	3,019	3,235	6,254	21,565
Travel and entertainment	10,627	1,407	12,034	104	3,116	3,220	15,254
Bad debts	-	-	-	-	1,500	1,500	1,500
Total expenses	<u>\$ 6,080,142</u>	<u>\$ 350,550</u>	<u>\$ 6,430,692</u>	<u>\$ 473,181</u>	<u>\$ 915,797</u>	<u>\$ 1,388,978</u>	<u>\$ 7,819,670</u>

The accompanying notes are an integral part of these financial statements.

THE MIDNIGHT MISSION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	(1,418,326)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation		556,461
Realized and unrealized gains on investments		(599,206)
Contributions of split-interest agreements		(436,152)
Change in value of split-interest agreements		(20,023)
Changes in operating assets and liabilities:		
Restricted cash		(19,000)
Contributions and other receivables		(184,279)
Prepaid expenses and other current assets		51,848
Accounts payable and accrued expenses		(154,014)
Participant savings liability		19,000
Deferred compensation		<u>24,135</u>
Net cash used in operating activities		<u>(2,179,556)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment		(173,785)
Proceeds from split-interest agreements		59,214
Proceeds from sale of investments		5,657,830
Purchase of investments		<u>(3,619,865)</u>
Net cash provided by investing activities		<u>1,923,394</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS (256,162)

CASH AND CASH EQUIVALENTS, beginning of year 387,331

CASH AND CASH EQUIVALENTS, end of year \$ 131,169

THE MIDNIGHT MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF ORGANIZATION

The Midnight Mission, a California non-profit organization, (the “Mission”) is a 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*, which provides more than 1,000,000 meals per year to homeless individuals and families, 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;
- *Healthy Living Program* for men, with 278 beds within the main facility, including sobriety support groups, education, employment training, health and wellness services, and life skills courses;
- *Homelight Family Living Program* in Inglewood, California, with 37 beds in eleven apartments for homeless families and children, with individualized case management, professional services, work force development, budgeting, and other life skills.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The accompanying 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.

Financial statement presentation

The Mission is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, which are described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors of the Mission.

Temporarily restricted - Net assets whose use by the Mission is subject to either explicit donor-imposed stipulations, or by operation of law that can be fulfilled by actions of the Mission or that expire by the passage of time.

THE MIDNIGHT MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial statement presentation (continued)

Permanently restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Mission and stipulate the use of income and/or appreciation as temporarily restricted based on donor-imposed stipulations or by operation of law.

Concentrations

Financial instruments, which potentially subject the Mission to concentrations of credit risk, consist primarily of cash and cash equivalents at financial institutions. The Mission maintains its cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits.

The Mission's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Mission's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and all highly liquid investments with an initial maturity at date of purchase of three months or less that are available for current use.

Restricted cash limited to participant savings liability

Restricted cash represents cash held by the Mission on behalf of its program participants, with an equal participant savings liability reported on the accompanying statement of financial position. Amounts may be withdrawn by the participants at their discretion.

Contributions and other receivables

Pledges receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Mission provides for losses on receivables using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of the donor to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Mission's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

THE MIDNIGHT MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are reported at their fair values in the statement of financial position. Realized and unrealized gains and losses are included in the change in net assets.

Property and equipment

Property and equipment is carried at cost or fair value on the date of donation, net of accumulated depreciation.

Cost of normal maintenance and repairs and minor replacements are charged to expense when incurred. Major replacements or betterments of properties are capitalized.

Depreciation

Depreciation of property and equipment is provided using the straight-line method over the assets' estimated useful lives of three to fifty years.

Impairment of long-lived assets

When facts and circumstances indicate that the carrying values of long-lived assets may be impaired, the Mission performs an evaluation of recoverability by comparing the carrying values of the assets to projected future cash flows in addition to other quantitative and qualitative analyses. No impairment charges were recorded for the year ended December 31, 2014.

Revenue recognition

Contributions

Contributions received, consisting of gifts and grants, are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions for which donors have imposed restrictions which limit the use of the donated assets are reported as restricted support if the restrictions are not met in the same reporting period. When such donor imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Contributions of assets which donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as permanently restricted net assets.

THE MIDNIGHT MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (continued)

Contributions (continued)

Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions but which are met within the same reporting period, are reported as unrestricted support.

Unconditional promises to give, with payments due in future periods, are reported as restricted support when the promises are received. 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 that 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 stipulation, the Mission reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Other

All non-contribution revenues are recognized when earned.

Contributed goods and services

The Mission receives various donated products such as food, hygiene items and medical supplies, which are used to provide services to the poor and homeless. The receipt of donated products by the Mission is reflected as gifts-in-kind and included in revenues and support in the accompanying statement of activities and as gifts-in-kind distribution expense in the accompanying statement of functional expenses. For the year ended December 31, 2014, gifts-in-kind totaled \$724,417.

A substantial number of volunteers have donated significant amounts of their time to the Mission and its programs; however, these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Functional allocation of expenses

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

THE MIDNIGHT MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

The Mission is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue Taxation Code of California. While tax-exempt organizations pay tax on unrelated business income, the Mission has reported no such income. Accordingly, no provision for income taxes is included in the accompanying statement of activities. The Mission has no unrecognized tax benefits at December 31, 2014.

The Mission's federal income tax returns are subject to examination by the Internal Revenue Service for a period of three years from the filing of a federal return. California income tax returns are subject to examination by the Franchise Tax Board for a period of four years from the filing of a return.

If applicable, the Mission recognizes interest and penalties associated with tax matters as part of income tax expense, and includes accrued interest and penalties with accrued expenses in the statement of financial position.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 3 - CONTRIBUTIONS AND OTHER RECEIVABLES

At December 31, 2014, contributions and other receivables are recorded net of an allowance for uncollectible accounts of \$14,702. All receivables outstanding at December 31, 2014 are due within one year of the financial position date.

NOTE 4 - SPLIT-INTEREST AGREEMENTS

The Mission has been named as the beneficiary of, and received 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 on the discounted value of the underlying assets and the life expectancies of the primary beneficiaries. The portion of the trust attributable to the Mission is recorded in the statement of net assets as a temporarily restricted contribution in the period the trust was established and the Mission notified.

THE MIDNIGHT MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - SPLIT-INTEREST AGREEMENTS (Continued)

The Mission has also been designated as the trustee for certain irrevocable split-interest agreements, consisting of charitable remainder trusts. The charitable remainder trust agreements require the Mission to make annual payments to the trust beneficiaries based on stipulated payment rates of 5% of the fair value of the trust assets, as determined annually. Upon the death of the beneficiaries, the remaining trust assets will be distributed by the Mission to itself. The fair value of the trust assets has been included in the Mission's statement of financial position as beneficial interest in split-interest agreements, and a corresponding liability has been recorded to reflect the present value of required lifetime payments and remaining obligation to the named beneficiaries using 5% discount rates at December 31, 2014. The difference between the fair value of the assets received and the present value of the obligation to the named beneficiaries under the agreements is recognized as a temporarily restricted contribution in the accompanying statement of activities. Realized and unrealized gains and losses, interest and dividend income from the investments and payments of the obligations are reflected as adjustments to obligations under split-interest agreements in the accompanying statement of financial position. Amortization of discounts and changes in actuarial assumptions are reflected in the statement of activities as a change in value of split-interest agreements.

During the year ended December 31, 2014, the Mission received \$1,095,943 in contributions from split-interest agreements, with a corresponding liability of \$659,790 to other beneficiaries under the trust agreements.

NOTE 5 - PROPERTY AND EQUIPMENT

At December 31, 2014, property and equipment consists of the following:

Buildings	\$	21,676,011
Land		4,201,365
Furniture and equipment		3,116,956
Vehicles		253,166
		<hr/>
		29,247,498
Less accumulated depreciation		(7,791,935)
		<hr/>
	\$	<u>21,455,563</u>

THE MIDNIGHT MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - INVESTMENTS

At December 31, 2014, investments consist of the following:

Exchange traded funds:	
Large-cap value	\$ 3,606,189
Large-cap growth	3,595,548
Foreign large blend	2,991,857
Small-cap	828,124
Mid-cap growth	617,964
Mid-cap value	616,360
Short-term government	273,941
Mutual funds:	
Bonds:	
Short-term	5,115,345
International	1,564,177
Emerging markets	1,513,375
Intermediate-term	67,379
Cash	1,125,970
Equities	25,800
Money market funds	6,030
	<u>\$ 21,948,059</u>

NOTE 7 - FAIR VALUE MEASUREMENTS

The Mission values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

THE MIDNIGHT MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Assets measured at fair value on a recurring basis at December 31, 2014 are as follows:

	Level 1	Level 2	Level 3	Total
Exchange traded funds	\$ 12,529,983	\$ -	\$ -	\$ 12,529,983
Mutual funds	8,260,276	-	-	8,260,276
Equities	25,800	-	-	25,800
Money market funds	-	6,030	-	6,030
Beneficial interest in split-interest agreements	-	1,579,389	1,149,401	2,728,790
Totals	<u>\$ 20,816,059</u>	<u>\$ 1,585,419</u>	<u>\$ 1,149,401</u>	<u>\$ 23,550,879</u>

Valuations of exchange traded funds, mutual funds and equities are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Money market funds are valued based on investment yield. Valuations of beneficial interest in split-interest agreements are determined based on the discounted value of the underlying assets and the life expectancies of the primary beneficiaries. For the year ended December 31, 2014, there have been no changes in the valuation methodologies.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Mission believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

THE MIDNIGHT MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Beneficial interest in split-interest agreements
Balance, beginning of year	\$ 1,177,316
Change in value of split-interest agreements	24,021
Proceeds from split-interest agreements	<u>(51,936)</u>
Balance, end of year	<u><u>\$ 1,149,401</u></u>

For the year ended December 31, 2014, the increase in value for Level 3 split-interest agreements held at December 31, 2014 was \$24,021.

The Mission's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers during the year ended December 31, 2014.

The following table represents the Mission's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values	Weighted Average
Beneficial interest in perpetual trusts held by others	\$ 1,149,401	Valuation of underlying assets as provided by trustee	Base price	N/A	N/A

NOTE 8 - RETIREMENT PLANS

Deferred compensation plans

The Mission maintains a deferred compensation plan whereby a long-term employee, upon his retirement, will receive \$25,000 per year for the rest of his life. At December 31, 2014, the present value of his estimated future obligation is \$133,552.

THE MIDNIGHT MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - RETIREMENT PLANS (Continued)

Deferred compensation plans (continued)

The Mission also maintains a deferred compensation plan for the benefit of an executive, whereby the Mission makes annual contributions of \$21,500 to the plan. Contributions under this plan are paid into a separate investment account established by the Mission under the plan. These contributions, together with the earnings, are payable to the executive. At December 31, 2014, net contributions and earnings on investments in the plan total \$399,161.

403(b) Plan

The Mission maintains a 403(b) plan covering eligible employees. The Mission does not make contributions under the plan.

NOTE 9 - NOTE PAYABLE

The Mission received a Federal Home Loan Bank grant on April 28, 2006 in the amount of \$1,000,000 to support the Mission's 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 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 then begin to accrue on any amount unpaid based on 5% per annum in excess of the U.S. Treasury rate. Management believes the Mission is in compliance with the terms of the grant.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Self-insurance program

The Mission is self-insured for state unemployment compensation. The Mission has recorded a liability of \$15,000 at December 31, 2014 for unemployment compensation, which is included in accounts payable and accrued expenses in the accompanying statement of financial position.

THE MIDNIGHT MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued)

Operating leases

The Mission leases certain equipment under a non-cancellable operating lease agreement expiring in September 2018. The Mission also leases certain equipment under month-to-month agreements. Total rent expense under these leases was \$69,773 for the year ended December 31, 2014. The following is a schedule by years of future minimum payments required under the leases:

<u>Years ending December 31,</u>	
2015	\$ 59,592
2016	59,592
2017	59,592
2018	<u>39,728</u>
	<u>\$ 218,504</u>

Contingencies

The Mission is subject to certain claims that arise out of the normal operations of the Mission. In the opinion of management, the Mission has sufficient liability insurance to cover any such claims, and these matters will not have material effect on the financial position of the Mission if disposed of unfavorably.

NOTE 11 - RESTRICTED NET ASSETS

At December 31, 2014, temporarily restricted net assets are available for the following purposes:

Time, split-interest agreements	\$ 2,069,000
Time	469,600
Programs	<u>143,507</u>
Totals	<u>\$ 2,682,107</u>

NOTE 12 - ENDOWMENTS

The Mission's endowment consists of donor-restricted funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

THE MIDNIGHT MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 12 - ENDOWMENTS (Continued)

The Mission has interpreted the State of California Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) 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 net assets until those amounts are appropriated for expenditure by the Mission in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Mission considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the Mission and donor-restricted endowment funds, (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 and (7) the Mission’s investment policies.

Investment return objectives, risk parameters and strategies

The Mission has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix that is intended to result in a consistent inflation protected rate of return that has sufficient liquidity to make an annual distribution of up to 7%, while growing the funds if possible. Actual returns in any given year may vary. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending policy

The Mission has a policy of appropriating for distribution each year up to 7% of its endowment fund’s average fair value of the prior sixty months. In establishing this policy, the Mission considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation.

THE MIDNIGHT MISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 12 - ENDOWMENTS (Continued)

Endowment composition

Endowment net asset composition by type of fund as of December 31, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 6,217</u>	<u>\$ 50,000</u>	<u>\$ 56,217</u>

Endowment activity

The following table summarizes the activity affecting endowment net assets for the year ended December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ -	\$ 8,033	\$ 50,000	\$ 58,033
Investment income		2,246	-	2,246
Appropriated for expenditure	<u>-</u>	<u>(4,062)</u>	<u>-</u>	<u>(4,062)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 6,217</u>	<u>\$ 50,000</u>	<u>\$ 56,217</u>

As of December 31, 2014, there were no deficiencies of donor-restricted endowment funds.

NOTE 13 - SUBSEQUENT EVENTS

Effective January 1, 2015, the Mission changed its fiscal year-end from December 31 to June 30.

Subsequent events have been evaluated by the Mission through September 22, 2015, which is the date the financial statements were available to be issued.