The Midnight Mission

Financial Statements
and Independent Auditor's Report

December 31, 2012

The Midnight Mission

Index

CohnReznick LLP
cohnreznick.com

Independent Auditor's Report

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, 2012, 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 of 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, 2012 and its changes in net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Correction of an Error

We also audited the adjustments described in Note 13 that were applied to restate the 2011 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

CohnReznick LLP

Los Angeles, California
June 24, 2013

The Midnight Mission

Statement of Financial Position
December 31, 2012

Assets	
Current assets:	
Cash and cash equivalents	$ 345,073
Contributions and other receivables, net	242,449
Prepaid expenses and other assets	203,870
Total current assets	791,392
Beneficial interest in split-interest agreements	1,764,803
Property and equipment, net	22,257,508
Investments	22,740,900
Total	$ 47,554,603
Liabilities and Net Assets	
Current liabilities:	
Accounts payable and accrued expenses	$ 479,614
Total current liabilities	479,614
Deferred compensation	467,329
Note payable	1,000,000
Total liabilities	1,946,943
Commitments and contingencies	
Net assets:	
Unrestricted	43,165,879
Temporarily restricted	2,391,781
Permanently restricted	50,000
Total net assets	45,607,660
Total	$ 47,554,603

See Notes to Financial Statements.

The Midnight Mission

Statement of Activities
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:				
Contributions	$ 1,770,573	$ 286,274	$ -	$ 2,056,847
Government grants	185,651	-	-	185,651
Grants	667,856	-	-	667,856
Legacies and bequests	797,716	-	-	797,716
Other revenue	122,856	-	-	122,856
Interest and dividends, net	679,231	997	-	680,228
Realized and unrealized gains on investments	2,305,716	3,384	-	2,309,100
Change in value of split-interest agreements	-	69,700	-	69,700
Net assets released from restrictions:				
Programs	152,477	(152,477)	-	-
Time	77,840	(77,840)	-	-
Total revenues and support	6,759,916	130,038		6,889,954
Expenses:				
Program services:				
Mission	4,663,247	-	-	4,663,247
Family housing	388,846	-	-	388,846
Supporting services:				
General and administrative	828,518	-	-	828,518
Fundraising and development	724,022	-	-	724,022
Total expenses	6,604,633	-	-	6,604,633
Change in net assets	155,283	130,038	-	285,321
Net assets, beginning of year, as previously reported	42,971,419	578,116	50,000	43,599,535
Restatement (see Note 13)	39,177	1,683,627	-	1,722,804
Net assets, beginning of the year, as restated	43,010,596	2,261,743	50,000	45,322,339
Net assets, end of year	$ 43,165,879	$ 2,391,781	$ 50,000	$ 45,607,660

See Notes to Financial Statements.

The Midnight Mission

Statement of Functional Expenses
Year Ended December 31, 2012

	Program Services			Supporting Services			
	Mission	Family Housing	Total Program Services	General and Administrative	Fundraising and Development	Total Supporting Services	Total Expenses
Salaries and benefits	$ 2,503,641	$ 211,864	$ 2,715,505	$ 672,176	$ 331,519	$ 1,003,695	$ 3,719,200
Work therapy stipend	123,925	-	123,925	-	-	-	123,925
Direct aid and housing assistance	43,178	5,018	48,196	-	-	-	48,196
Food	149,591	297	149,888	-	-	-	149,888
Laundry, cleaning and household supplies	93,513	3,369	96,882	-	-	-	96,882
Telephone and utilities	381,051	28,464	409,515	30,611	433	31,044	440,559
Repairs and maintenance	110,714	6,133	116,847	12,946	12,445	25,391	142,238
Professional fees	71,794	52,738	124,532	43,030	8,717	51,747	176,279
Office supplies and expense	40,036	260	40,296	4,813	877	5,690	45,986
Postage	26,482	-	26,482	1,669	25,898	27,567	54,049
Printing and publication	19,727	-	19,727	2,138	69,328	71,466	91,193
Fundraising events	-	-	-	-	217,781	217,781	217,781
Depreciation	573,041	66,661	639,702	6,374	-	6,374	646,076
Insurance	89,453	8,371	97,824	2,283	-	2,283	100,107
Contract labor	225,794	-	225,794	-	-	-	225,794
Bank charges	-	-	-	-	25,173	25,173	25,173
Community relations	27,462	-	27,462	2,184	1,713	3,897	31,359
Automobile	73,582	1,054	74,636	9,458	702	10,160	84,796
Bad debts	-	-	-	-	23,803	23,803	23,803
Equipment rental	46,293	1,594	47,887	6,403	-	6,403	54,290
Training and seminars	30,931	-	30,931	729	3,433	4,162	35,093
Travel and entertainment	3,252	308	3,560	6,332	2,200	8,532	12,092
Taxes and licenses	21,530	2,715	24,245	41	-	41	24,286
Other expense	8,257	-	8,257	27,331	-	27,331	35,588
Totals	$ 4,663,247	$ 388,846	$ 5,052,093	$ 828,518	$ 724,022	$ 1,552,540	$ 6,604,633

See Notes to Financial Statements.

The Midnight Mission

Statement of Cash Flows
Year Ended December 31, 2012

Operating activities:	
Change in net assets	$ 285,321
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Bad debts	23,803
Depreciation	646,076
Realized and unrealized gain on investments	(2,309,100)
Change in value of split-interest agreement	(69,700)
Changes in operating assets and liabilities:	
Contributions and other receivables	(987)
Prepaid expenses and other assets	(65,520)
Accounts payable	174,952
Deferred compensation	(14,828)
Net cash used in operating activities	(1,329,983)
Investing activities:	
Purchases of investments	(697,180)
Proceeds from sale of investments	1,987,850
Proceeds from split-interest agreements	77,340
Purchases of property and equipment	(166,794)
Net cash provided by investing activities	1,201,216
Net decrease in cash and cash equivalents	(128,767)
Cash and cash equivalents, beginning of year	473,840
Cash and cash equivalents, end of year	$ 345,073

See Notes to Financial Statements.

Note 1 - Business activity and summary of significant accounting policies:

Business:

The Midnight Mission, a California non-profit organization (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 Angles County area. The Mission operates three programs: Guest Services, which 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, California with 37 beds in eleven apartments for homeless families and children with counseling, education, employment training, and financial literacy programs.

Basis of accounting:

The accompanying financial statements 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.

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.

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.

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.

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 promissor, shall be recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Contributed services:

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 statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Cash and cash equivalents:

Cash and cash equivalents include demand deposits and all highly liquid investments with initial maturities at the date of acquisition of three months or less that are available for current use.

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.

Investments:

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

Property and equipment:

Property and equipment are stated at cost or fair value on the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets generally ranging from three to fifty years. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Minor repairs and maintenance costs are charged to expense in the year incurred.

Long-lived assets:

Long-lived assets to be held and used are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Mission periodically reviews the carrying value of long-lived assets to determine whether or not impairment to such value has occurred. No impairments were recorded during the year ended December 31, 2012.

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 prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described as follows:

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.

Income taxes:

The Mission is tax exempt under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and 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 financial statements. The Mission has no unrecognized tax benefits at December 31, 2012.

The Mission's Federal and state income tax returns prior to the 2009 and 2008 fiscal years, respectively, are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

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 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 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.

Subsequent events:

The Mission has evaluated the impact of subsequent events through June 24, 2013, which is the date the financial statements were available to be issued.

Note 2 - Concentrations:

Financial instruments that potentially subject the Mission to concentrations of credit risk consist primarily of cash and cash equivalents. 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 in any one class.

Note 3 - Contributions and other receivables:

At December 31, 2012, contributions and other receivables are recorded net of an allowance for uncollectible accounts of $14,702. All amounts are due during the next year.

Note 4 - Beneficial interest in split-interest 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 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 is established and the Mission is notified. There were no such contributions received for the year ended December 31, 2012.

Note 5 - Property and equipment:

At December 31, 2012, property and equipment consist of the following:

Vehicles	$ 287,720
Furniture and equipment	2,849,803
Buildings	21,655,467
Land	4,201,365
	28,994,355
Less accumulated depreciation	6,760,422
	22,233,933
Construction in progress	23,575
	$ 22,257,508

Depreciation expense for the year ended December 31, 2012 was $646,076.

Note 6 - Investments:

At December 31, 2012, investments consist of the following:

Mutual funds:		
Bonds:		
Short-term	$	2,482,683
Intermediate-term		1,133,872
Emerging markets		1,127,460
International		1,084,236
Nontraditional		1,077,769
Equities:		
International value		3,324,885
World allocation		2,192,357
Exchange traded funds:		
Large-cap value		2,754,122
Large-cap growth		2,734,022
Mid-cap growth		1,111,330
Mid-cap value		1,107,763
Small-cap growth		558,010
Small-cap value		563,553
Emerging markets		1,193,172
Money market funds		295,666
	$	22,740,900

Note 7 - Fair value measurements:

At December 31, 2012, financial assets are carried at fair value and are classified in the table below in one of the three categories described in Note 1:

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 12,423,262	$ -	$ -	$ 12,423,262
Exchange traded funds	10,021,972	-	-	10,021,972
Money market funds	295,666	-	-	295,666
Beneficial interest in split-interest agreements	-	1,764,803	-	1,764,803
Totals	$ 22,740,900	$ 1,764,803	$ -	$ 24,505,703

Money market funds are valued based on investment yield. Valuations of mutual funds and exchange traded funds are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Valuations of beneficial interest in split-interest agreements are determined based on the discounted value of the underlying assets.

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.

Note 8 - Retirement 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, 2012, the present value of this estimated future obligation is $170,253.

The Mission also maintains a deferred compensation plan for the benefit of an executive, whereby the Mission makes annual contributions of $16,000 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, 2012, the net contributions and earnings on investments in the plan total $297,076.

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

Note 9 - Long-term debt:

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 then begin to accrue on any amount unpaid based on 5% per annum in excess of the US Treasury rate.

Note 10 - Commitments and contingencies

Self-insurance program:

The Mission is self-insured for state unemployment compensation. At December 31, 2012, the Mission has recorded a liability of $15,000 for unemployment compensation, which is included in accounts payable and accrued expenses in the accompanying statement of financial position.

Operating leases:

The Mission leases certain equipment under non cancellable operating lease agreements expiring at various dates through March 2015. Total rent expense under these leases was $46,864 for the year ended December 31, 2012. The following is a schedule by years of future minimum payments required under the leases:

Years ending June 30,		
2013	$	42,156
2014		41,196
2015		10,059
	$	93,411

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 a material effect on the financial position of the Mission if disposed of unfavorably.

Note 11 - Restricted net assets:

At December 31, 2012, temporarily restricted net assets are available for the following purposes:

Programs	$	291,881
Time		335,097
Time, split-interest agreements		1,764,803
	$	2,391,781

At December 31, 2012, the Mission has $50,000 of permanently restricted net assets, the income from which can be used for general purposes.

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 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 5%, 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 5% of its endowment fund's average fair value of the prior 60 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.

Endowment net asset composition by type of fund as of December 31, 2012 is as follows:

	Unrestricted	Temporarirly Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 4,381	$ 50,000	$ 54,381

The following table summarizes the activity affecting endowment net assets for the year ended December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	$ -	$ -	$ 50,000	$ 50,000
Investment income	-	6,881	-	6,881
Appropriated for expenditure	-	(2,500)	-	(2,500)
Endowment assets, end of year	$ -	$ 4,381	$ 50,000	$ 54,381

As of December 31, 2012, there were no deficiencies of donor-restricted endowment funds.

Note 13 - Restatement

Temporarily restricted net assets as of December 31, 2011 have been increased by $1,446,804 to record and correct the valuation of the beneficial interest in split-interest agreements. In addition, the financial statements include a correction to record unrestricted and temporarily restricted net assets as of December 31, 2011 of $39,177 and $236,823, respectively, for amounts received from a trust which were previously recorded as a liability. Total net assets as of December 31, 2011 have been increased by $1,722,804.