THE MIDNIGHT MISSION

FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITORS' REPORT

YEAR ENDED JUNE 30, 2018

CONTENTS

Certified Public Accountants
Strategic Business Consultants

Independent Auditors' Report

To the Board of Directors
The Midnight Mission
Los Angeles, California

We have audited the accompanying financial statements of The Midnight Mission (a California non-profit organization), which comprise the statement of financial position as of June 30, 2018, 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.

Auditors' 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.

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Certified Public Accountants
Strategic Business Consultants

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 June 30, 2018, 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.

SRG, LLP

SRG, LLP
December 17, 2018

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THE MIDNIGHT MISSION

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

Assets

Current assets		
Cash and cash equivalents	$	255,710
Restricted cash		132,455
Accounts receivable		1,321,295
Contributions receivable, net		198,226
Prepaid expenses and other current assets		130,833
Total current assets		2,038,519
Investments		19,590,455
Beneficial interest in split-interest agreements		2,703,624
Property and equipment, net		20,251,555
Total assets	$	44,584,153

Liabilities and Net Assets

Current liabilities		
Accounts payable	$	427,207
Accrued expenses		159,996
Deferred revenue		253,665
Participant savings liability		132,455
Total current liabilities		973,323
Deferred compensation		160,786
Obligations under split-interest agreements		579,915
Note payable		1,000,000
Total liabilities		2,714,024
Commitments and contingencies		
Net assets		
Unrestricted		39,192,334
Temporarily restricted		2,627,795
Permanently restricted		50,000
Total net assets		41,870,129
Total liabilities and net assets	$	44,584,153

See notes to the financial statements.

THE MIDNIGHT MISSION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Contributions	$ 2,654,182	$ 263,226	$ -	$ 2,917,408
Legacies and bequests	1,192,230	-	-	1,192,230
Gifts-in-kind	2,483,475	-	-	2,483,475
Government contract revenue	3,235,377	-	-	3,235,377
Foundation grants	635,308	-	-	635,308
Interest and dividends, net	395,781	1,086	-	396,867
Other revenue	371,979	-	-	371,979
Realized and unrealized gains on investments	1,121,723	3,077	-	1,124,800
Change in value of split-interest agreements	-	202,104	-	202,104
Net assets released from restrictions:				
Programs	2,213	(2,213)	-	-
Time	311,827	(311,827)	-	-
Total revenues and support	12,404,095	155,453	-	12,559,548
Expenses				
Program services:				
Mission	9,102,539	-	-	9,102,539
Family living	367,087	-	-	367,087
Support services:				
General and administrative	902,183	-	-	902,183
Fundraising and development	840,958	-	-	840,958
Total expenses	11,212,767	-	-	11,212,767
Change in net assets	1,191,328	155,453	-	1,346,781
Net assets, beginning of year	38,001,006	2,472,342	50,000	40,523,348
Net assets, end of year	$ 39,192,334	$ 2,627,795	$ 50,000	$ 41,870,129

THE MIDNIGHT MISSION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Program Services			Support Services			
	Mission	Family Housing	Total Program Services	General and Administrative	Fundraising and Development	Total Support Services	Total
Salaries and benefits	$ 4,558,429	$ 257,714	$ 4,816,143	$ 738,300	$ 345,343	$ 1,083,643	$ 5,899,786
Gifts-in-kind distribution	2,150,003	-	2,150,003	-	-	-	2,150,003
Telephone and utilities	532,408	33,255	565,663	445	780	1,225	566,888
Depreciation	480,514	23,437	503,951	62,849	-	62,849	566,800
Contract labor	337,350	16,204	353,554	-	450	450	354,004
Fundraising events	7,256	11,019	18,275	129	231,122	231,251	249,526
Repairs and maintenance	170,280	5,908	176,188	11,478	30,959	42,437	218,625
Printing and publications	22,992	68	23,060	852	136,987	137,839	160,899
Professional fees	104,071	6,615	110,686	33,323	362	33,685	144,371
Insurance	106,626	-	106,626	11,623	12,038	23,661	130,287
Equipment rental	96,313	133	96,446	13,058	11,334	24,392	120,838
Food	118,314	407	118,721	1,499	-	1,499	120,220
Laundry, cleaning and household supplies	113,514	905	114,419	-	-	-	114,419
Automobile	104,986	4,157	109,143	28	-	28	109,171
Work therapy stipend	95,207	-	95,207	1,750	-	1,750	96,957
Office supplies	29,988	1,275	31,263	16,711	2,769	19,480	50,743
Bank charges	2,944	-	2,944	38	28,781	28,819	31,763
Direct aid and housing assistance	28,790	1,207	29,997	-	-	-	29,997
Postage	5,035	-	5,035	1,638	19,724	21,362	26,397
Community relations	9,518	932	10,450	7,869	8,000	15,869	26,319
Taxes and licenses	18,855	2,933	21,788	525	521	1,046	22,834
Travel and entertainment	6,636	918	7,554	68	4,486	4,554	12,108
Bad debts	-	-	-	-	5,025	5,025	5,025
Training and seminars	2,510	-	2,510	-	2,277	2,277	4,787
Total expenses	$ 9,102,539	$ 367,087	$ 9,469,626	$ 902,183	$ 840,958	$ 1,743,141	$ 11,212,767

THE MIDNIGHT MISSION

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018

Cash flows from operating activities		
Change in net assets	$	1,346,781
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		566,800
Realized and unrealized gains on investments		(1,124,800)
Changes in value of split-interest agreements		(202,104)
Changes in operating assets and liabilities:		
Restricted cash		67,921
Accounts receivable		(481,495)
Contributions receivable		(116,310)
Prepaid expenses and other current assets		(14,593)
Accounts payable		113,776
Accrued expenses		29,214
Deferred revenue		53,999
Participant savings liability		(67,921)
Deferred compensation		21,695
Net cash provided by operating activities		192,963
Cash flows from investing activities		
Purchases of property and equipment		(393,469)
Proceeds from split-interest agreements		229,411
Proceeds from sale of investments		526,291
Purchases of investments		(718,096)
Net cash used in investing activities		(355,863)
Net decrease in cash and cash equivalents		(162,900)
Cash and cash equivalents, beginning of year		418,610
Cash and cash equivalents, end of year	$	255,710

See notes to the financial statements.

1. Description of organization

The Midnight Mission (the "Mission"), a California non-profit organization, is a secular organization founded in the city of Los Angeles in 1914. The Mission seeks to assist individuals and families who are experiencing homelessness in and around Los Angeles City and County effectively deal with the issues that may have contributed to or caused their homelessness, and achieve stability and self-sufficiency in appropriate housing. The Mission operates a number of programs:

1. The *Crisis & Bridge Housing Program* is an 85-bed program located in the main facility and provides short- and medium-term shelter and housing to women and men. The program is low-barrier and uses principles of Harm Reduction, Housing First, and Trauma-Informed care while leveraging a wide array of resources provided on site or through community partners. The program is designed to assist residents to end their episode of homelessness and achieve stability in housing.

2. The *Courtyard in Orange County Program* is a 425-bed Crisis and Bridge Housing program in the County of Orange that blends community, government, and philanthropic support to provide a safe residential program, a drop-in center for bathing, laundry, social, and health and wellness services and meals. The program is a low-barrier program providing connections to additional services through progressive engagement and in-reach activities.

3. *Meals & Basic Need Services* provides nearly 1,000,000 meals per year in the main facility to homeless and near-homeless individuals and families, along with supportive services including showers, restrooms, hygiene kits, health and wellness services, food bags, emergency shelter, clothing, and connection to other needed services.

4. *Homelight Family Living Program* ("*HFL*") has 37 beds in 11 apartments separate from the main facility and Orange County Program and serves families with minor children experiencing homelessness. *HFL* provides support in obtaining employment, counseling, educational intervention for children, and other services needed to keep the family intact while reducing the trauma of homelessness. The program is designed to assist families to achieve stability and self-sufficiency.

5. *Healthy Living Program for Men* is a 12-step based transitional program with 193 beds serving primarily homeless men and is located in the main facility. The program includes sober residential living with sobriety support groups, education, employment training, health and wellness services, and life skills courses designed to help men achieve a sober and self-sufficient future.

2. Summary of significant accounting policies

Basis of accounting

The financial statements of the Mission have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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.

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 SCVA 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.

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.

2. Summary of significant accounting policies - continued

Accounts and contributions receivable

Accounts and contributions receivable are stated at unpaid balances, less an allowance for doubtful accounts. Management evaluates the ability to collect receivables based on a combination of factors. An allowance for doubtful accounts is maintained based on the length of time receivables are past due and other factors. It is the Mission's policy to charge off uncollectible receivables when management determines the receivable will not be collected. At June 30, 2018, a reserve for uncollectible accounts receivable is not deemed necessary. At June 30, 2018, contribution receivables are recorded net of an allowance for doubtful accounts of $14,702. All contribution receivables outstanding at June 30, 2018 are due within one year of the financial position date.

Investments

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

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 June 30, 2018.

2. Summary of significant accounting policies - continued

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

Government contract revenue

The Mission has contracts with certain governmental agencies to provide public services. Revenue is recognized in the period services are provided.

2. Summary of significant accounting policies - continued

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, and donated advertising space. The receipt of donated products by the Mission is recorded at fair value and 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 June 30, 2018, the Mission received total gifts-in-kind of $2,483,475, consisting of donated products, vans and advertising with estimated fair values of $2,150,003, $300,000 and $33,472, respectively.

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.

Other

Other revenues are recognized when earned.

Deferred revenue

Deferred revenue arises from upfront payments made by governmental agencies prior to services being provided by the Mission.

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.

2. Summary of significant accounting policies - continued

Income taxes - continued

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(b) of the Revenue Taxation Code of California.

The Mission has no unrecognized tax benefits at June 30, 2018. 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.

3. Investments

At June 30, 2018, investments consist of the following:

Exchange traded funds:		
Large-cap value	$	3,699,055
Large-cap growth		3,475,875
Intermediate-term bond		3,091,260
Foreign small-cap blend		1,259,971
Foreign large-cap blend		1,200,607
Small-cap growth		1,197,938
Small-cap value		1,081,194
World bond		821,664
Emerging markets		726,067
Mid-cap growth		560,103
Mid-cap value		494,941
Short-term government		279,381
Mutual funds - short-term bonds		1,641,422
Cash		60,977
	$	19,590,455

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.

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 activities as a temporarily restricted contribution in the period the trust was established and the Mission notified.

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 June 30, 2018. 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.

There were no contributions received for new split-interest agreements during the year ended June 30, 2018.

5. Property and equipment

At June 30, 2018, property and equipment consists of the following:

Buildings	$ 21,677,361
Land	4,201,365
Furniture and equipment	3,522,264
Vehicles	558,127
	29,959,117
Less accumulated depreciation	(9,707,562)
	$ 20,251,555

6. Fair value measurements

The Mission values its financial instruments 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 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 June 30, 2018 are as follows:

	Level 1	Level 2	Level 3	Total
Exchange traded funds	$ 17,888,056	$ -	$ -	$ 17,888,056
Mutual funds	1,641,422	-	-	1,641,422
Beneficial interest in split-interest agreements	-	1,515,124	1,188,500	2,703,624
Totals	$ 19,529,478	$ 1,515,124	$ 1,188,500	$ 22,233,102

6. Fair value measurements - continued

Valuations of exchange traded funds and mutual funds 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 June 30, 2018, 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.

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	$ 1,139,170
Change in value of split-interest agreements	99,619
Proceeds from split-interest agreements	(50,289)
Balance, end of year	$ 1,188,500

For the year ended June 30, 2018, the increase in value for Level 3 split-interest agreements held at June 30, 2018 was $99,619.

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 June 30, 2018.

6. Fair value measurements - continued

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	$ 1,188,500	Valuation of underlying assets as provided by trustee	Base price	N/A	N/A

7. 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 June 30, 2018, the present value of his estimated future obligation is $117,194.

The Mission also maintains deferred compensation plans for the benefit of an executive, whereby the Mission makes annual contributions of $21,500 to the plan for the executive. 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 executives. At June 30, 2018, the liability for this deferred compensation plan is $43,592.

403(b) Plan

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

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 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.

9. Concentrations

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

For the year ended June 30, 2018, government contract revenue is generated from two municipalities and accounts for approximately 26% of the Mission's total revenues and support. At June 30, 2018, these two municipalities account for approximately 97% of the Mission's accounts receivable.

10. Commitments and contingencies

Self-insurance programs

Unemployment compensation

The Mission is self-insured for state unemployment compensation. The Mission has recorded a liability of $15,000 at June 30, 2018 for unemployment compensation, which is included in accrued expenses in the accompanying statement of financial position.

10. Commitments and contingencies - continued

Self-insurance programs - continued

Workers' compensation

The Mission is insured for workers' compensation liability as a member of a not-for-profit mutual benefit corporation (the "Group"), which provides a pooled shared risk workers' compensation insurance program to enable member not-for-profit organizations to self-insure their workers' compensation liability exposure for up to $500,000 per claim and occurrence. In accordance with the Group's bylaws, each member is jointly and severally liable for expenses and obligations of the Group and for the workers' compensation liability of all members, and the Group can charge its members an assessment in excess of regular premiums if the Group has insufficient reserves for potential losses. As of June 30, 2018, no assessment has been made, and the Mission has not recorded a liability for workers' compensation obligations.

Operating leases

The Mission leases certain equipment under a non-cancellable operating lease agreement expiring in February 2022. The Mission also leases certain equipment under month-to-month agreements. Total rent expense under these leases was $40,824 for the year ended June 30, 2018. The following is a schedule by years of future minimum payments required under the lease:

Years ending June 30,	
2019	$ 40,824
2020	40,824
2021	40,824
2022	23,814
	$ 146,286

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.

11. Restricted net assets

At June 30, 2018, temporarily restricted net assets are available for the following purposes:

Time, split-interest agreements	$ 2,123,709
Time	339,086
Time, capital improvements	100,000
Programs	65,000
	$ 2,627,795

12. Endowments

The Mission's endowment consists of permanently restricted funds received from an estate in 2010. 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.

12. Endowments - continued

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 achieve an average net annual rate of return of the consumer price index plus 4%. 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 4% 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.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 7,287	$ 50,000	$ 57,287

12. **Endowments** - continued

Endowment activity

The following table summarizes the activity affecting endowment net assets for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Endowment net assets, beginning of year	$ -	$ 5,337	$ 50,000	$ 55,337
Investment income	-	4,163	-	4,163
Appropriated for expenditure	-	(2,213)	-	(2,213)
Endowment net assets, end of year	$ -	$ 7,287	$ 50,000	$ 57,287

As of June 30, 2018, there were no deficiencies of donor-restricted endowment funds.

13. **Subsequent events**

Subsequent events have been evaluated by the Mission through December 17, 2018, which is the date the financial statements were available to be issued.