

# **UNION RESCUE MISSION**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

**UNION RESCUE MISSION**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2016**

**CONTENTS**

	<b>Page</b>
Independent Auditor's Report .....	1
Statement of Financial Position .....	2
Statement of Activities .....	3
Statement of Functional Expenses.....	4
Statement of Cash Flows .....	5
Notes to Financial Statements .....	7

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Union Rescue Mission

### Report on the Financial Statements

We have audited the accompanying financial statements of Union Rescue Mission (the Mission), which comprise the statement of financial position as of June 30, 2016, 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 Mission as of June 30, 2016 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.

### Report on Summarized Comparative Information

We have previously audited the Mission's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 20, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Green Hasson & Janks LLP*

October 18, 2016  
Los Angeles, California

# UNION RESCUE MISSION

## STATEMENT OF FINANCIAL POSITION June 30, 2016 With Comparative Totals at June 30, 2015

<b>ASSETS</b>	2016	2015
Cash and Cash Equivalents	\$ 3,602,000	\$ 4,922,000
Investments	5,892,000	541,000
Accounts and Other Receivables	28,000	16,000
Bequests Receivable	22,000	676,000
Pledges Receivable - Net	1,646,000	977,000
Inventory	186,000	148,000
Prepaid Expenses and Other Assets	839,000	249,000
Beneficial Interest in Charitable Remainder Trusts	424,000	469,000
Beneficial Interest in Perpetual Trust	144,000	153,000
Land, Buildings and Equipment - Net	24,174,000	25,746,000
<b>TOTAL ASSETS</b>	<b>\$ 36,957,000</b>	<b>\$ 33,897,000</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts Payable and Accrued Expenses	\$ 1,744,000	\$ 1,663,000
Notes Payable	3,830,000	4,852,000
Annuities Payable	196,000	215,000
<b>TOTAL LIABILITIES</b>	<b>5,770,000</b>	<b>6,730,000</b>
<b>NET ASSETS:</b>		
Unrestricted	29,599,000	25,988,000
Temporarily Restricted	1,271,000	856,000
Permanently Restricted	317,000	323,000
<b>TOTAL NET ASSETS</b>	<b>31,187,000</b>	<b>27,167,000</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 36,957,000</b>	<b>\$ 33,897,000</b>

The Accompanying Notes are an Integral Part of These Financial Statements

## UNION RESCUE MISSION

### STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

With Summarized Totals for the Year Ended June 30, 2015

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>PUBLIC SUPPORT:</b>					
Contributions	\$ 11,782,000	\$ 659,000	\$ 3,000	\$ 12,444,000	\$ 13,872,000
Gifts-in-Kind	2,612,000	-	-	2,612,000	2,751,000
Bequests and Planned Giving	5,361,000	-	-	5,361,000	3,804,000
Special Events - Net of Direct Donor Benefits of \$536,000	4,406,000	-	-	4,406,000	897,000
Change in Value - Beneficial Interest in Charitable Remainder Trusts	-	20,000	-	20,000	(64,000)
Change in Value - Beneficial Interest in Perpetual Trust	-	-	(9,000)	(9,000)	(8,000)
Net Assets Released from Purpose Restrictions	264,000	(264,000)	-	-	-
<b>TOTAL PUBLIC SUPPORT</b>	24,425,000	415,000	(6,000)	24,834,000	21,252,000
<b>OTHER REVENUE:</b>					
Thrift Store Revenue	465,000	-	-	465,000	397,000
Other Income	546,000	-	-	546,000	581,000
Investment Income - Net	176,000	-	-	176,000	9,000
<b>TOTAL OTHER REVENUE</b>	1,187,000	-	-	1,187,000	987,000
<b>TOTAL PUBLIC SUPPORT AND OTHER REVENUE</b>	25,612,000	415,000	(6,000)	26,021,000	22,239,000
<b>OPERATING EXPENSES:</b>					
<b>Program Services:</b>					
Shelter Services	6,443,000	-	-	6,443,000	6,416,000
Recovery Programs	9,016,000	-	-	9,016,000	9,111,000
Community Outreach	1,538,000	-	-	1,538,000	1,287,000
<b>TOTAL PROGRAM SERVICES</b>	16,997,000	-	-	16,997,000	16,814,000
<b>Support Services:</b>					
Management and General	1,872,000	-	-	1,872,000	1,883,000
Fundraising	3,132,000	-	-	3,132,000	3,462,000
<b>TOTAL SUPPORT SERVICES</b>	5,004,000	-	-	5,004,000	5,345,000
<b>TOTAL OPERATING EXPENSES</b>	22,001,000	-	-	22,001,000	22,159,000
<b>CHANGE IN NET ASSETS</b>	3,611,000	415,000	(6,000)	4,020,000	80,000
Net Assets - Beginning of Year	25,988,000	856,000	323,000	27,167,000	27,087,000
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 29,599,000</u>	<u>\$ 1,271,000</u>	<u>\$ 317,000</u>	<u>\$ 31,187,000</u>	<u>\$ 27,167,000</u>

The Accompanying Notes are an Integral Part of These Financial Statements

## UNION RESCUE MISSION

### STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2016

With Summarized Totals for the Year Ended June 30, 2015

	2016								2015 Total
	Program Services				Support Services			Total	
	Shelter Services	Recovery Programs	Community Outreach	Total Program Services	Management and General	Fundraising	Total Support Services		
Payroll and Related Expenses	\$ 3,766,000	\$ 4,209,000	\$ 229,000	\$ 8,204,000	\$ 1,207,000	\$ 740,000	\$ 1,947,000	\$ 10,151,000	\$ 9,765,000
Depreciation and Amortization	559,000	1,126,000	-	1,685,000	57,000	23,000	80,000	1,765,000	1,808,000
Food and Kitchen Supplies	807,000	746,000	109,000	1,662,000	18,000	-	18,000	1,680,000	1,823,000
Donor Appeals	93,000	93,000	-	186,000	-	1,425,000	1,425,000	1,611,000	1,957,000
Occupancy	402,000	921,000	3,000	1,326,000	141,000	8,000	149,000	1,475,000	1,424,000
Supplies and Program Expenses	352,000	486,000	47,000	885,000	31,000	263,000	294,000	1,179,000	1,410,000
Gifts-in-Kind Distribution	-	-	1,093,000	1,093,000	-	-	-	1,093,000	830,000
Professional Consultation	103,000	103,000	3,000	209,000	36,000	609,000	645,000	854,000	835,000
Vehicles and Equipment Expenses	154,000	448,000	3,000	605,000	67,000	-	67,000	672,000	669,000
Thrift Store Operations	-	607,000	-	607,000	-	-	-	607,000	659,000
Miscellaneous	105,000	131,000	37,000	273,000	156,000	59,000	215,000	488,000	517,000
Insurance	102,000	146,000	14,000	262,000	7,000	5,000	12,000	274,000	275,000
Interest	-	-	-	-	152,000	-	152,000	152,000	187,000
<b>TOTAL 2016 FUNCTIONAL EXPENSES</b>	<b>\$ 6,443,000</b>	<b>\$ 9,016,000</b>	<b>\$ 1,538,000</b>	<b>\$ 16,997,000</b>	<b>\$ 1,872,000</b>	<b>\$ 3,132,000</b>	<b>\$ 5,004,000</b>	<b>\$22,001,000</b>	
<b>TOTAL 2015 FUNCTIONAL EXPENSES</b>	<b>\$ 6,416,000</b>	<b>\$ 9,111,000</b>	<b>\$ 1,287,000</b>	<b>\$ 16,814,000</b>	<b>\$ 1,883,000</b>	<b>\$ 3,462,000</b>	<b>\$ 5,345,000</b>		<b>\$ 22,159,000</b>

The Accompanying Notes are an Integral Part of These Financial Statements

# UNION RESCUE MISSION

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

With Comparative Totals for the Year Ended June 30, 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 4,020,000	\$ 80,000
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,798,000	1,808,000
Loss on Disposal of Assets	2,000	10,000
Donated Equipment	(1,000)	-
Donated Stock	(481,000)	(56,000)
Proceeds from Sale of Donated Stock	476,000	54,000
Loss on Sale of Donated Stock	5,000	2,000
Realized and Unrealized Gains on Investments	(83,000)	(2,000)
Loss on Disposal of Land, Buildings and Equipment		
Change in Value of Annuities Payable	12,000	18,000
Change in Value of Beneficial Interest in Charitable Remainder Trusts	(20,000)	64,000
Change in Value of Beneficial Interest in Perpetual Trust	9,000	8,000
Contributions Restricted for Investment in Land, Buildings and Equipment	(659,000)	(389,000)
Contributions Restricted for Investment in Perpetuity	(3,000)	(4,000)
Decrease (Increase) in:		
Accounts and Other Receivables	(12,000)	(6,000)
Bequests Receivable	654,000	(220,000)
Pledges Receivable	(669,000)	(79,000)
Inventory	(38,000)	(16,000)
Prepaid Expenses and Other Assets	(590,000)	(83,000)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	81,000	196,000
Annuities Payable	(31,000)	(39,000)
 <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	 4,470,000	 1,346,000
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Investments	(5,200,000)	(442,000)
Reinvested Interest and Dividends	(98,000)	-
Proceeds from Sale of Investments	30,000	468,000
Purchase of Land, Buildings and Equipment	(195,000)	(871,000)
Proceeds from Sale of Land, Buildings and Equipment	2,000	-
Interest Capitalized into Land, Buildings and Equipment	(34,000)	(41,000)
 <b>NET CASH USED IN INVESTING ACTIVITIES</b>	 (5,495,000)	 (886,000)

The Accompanying Notes are an Integral Part of These Financial Statements

# UNION RESCUE MISSION

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

With Comparative Totals for the Year Ended June 30, 2015

	2016	2015
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions Restricted for Investment in Perpetuity	\$ 3,000	\$ 4,000
Proceeds from Distribution of Beneficial Interest in Charitable Remainder Trust	65,000	550,000
Proceeds from Contributions Restricted for Investment in Land, Buildings and Equipment	659,000	389,000
Proceeds from Notes Payable	27,000	1,000
Payments on Notes Payable	<u>(1,049,000)</u>	<u>(937,000)</u>
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>(295,000)</u>	<u>7,000</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,320,000)	467,000
Cash and Cash Equivalents - Beginning of Year	<u>4,922,000</u>	<u>4,455,000</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 3,602,000</u></u>	<u><u>\$ 4,922,000</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash Paid During the Year for Interest (Net of Amount Capitalized into Land, Buildings and Equipment of \$34,000 in 2016 and \$41,000 in 2015)	\$ 152,000	\$ 187,000

The Accompanying Notes are an Integral Part of These Financial Statements



# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 1 - NATURE OF ORGANIZATION

Union Rescue Mission (the Mission) is a California, religious, not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Funds raised by the Mission provide food, shelter and clothing for impoverished men, women and children. Founded in 1891, the Mission is the largest mission of its kind in America and is the oldest in Los Angeles, operating 24 hours a day, 7 days a week, 365 days a year. The Mission provides a comprehensive array of emergency and long-term services, including food, shelter, clothing, medical and dental care, recovery programs, transitional housing, legal assistance, education and counseling, in addition to job training for men and women.

The Mission operates a 77-acre property, named Hope Gardens Family Center, which provides a safe, healthy, positive and tranquil living environment for formerly homeless senior women and women with children. The facilities accommodate permanent supportive housing for the senior women and transitional supportive housing for women with children. Residents receive job training, financial literacy education, life skills coursework, personal and spiritual development classes, as well as access to off-site legal, medical and dental services. Childcare is provided for nursery and preschool children while school-age children receive transportation to the local public school. Hope Gardens Family Center offers a safe, peaceful and aesthetically pleasing environment that lends itself to the healing of broken lives and the rebuilding of shattered dreams.

The Mission also operates a community thrift store located in Covina, California. It has two key objectives. First, donated items earn support for all the Life Transformation Programs of the Mission which include Hope Gardens Family Center. Second, the store operation provides skill development and job training for men and women nearing their transition back into the community.

Through the Mission's Community Outreach Program, donated products are solicited and acquired each month for internal use and for distribution in the Southern California area and to sites of natural disasters. Typical products include food, clothes, hygiene items, medical/dental supplies and equipment, and school supplies for children. The program allows the Mission to extend its ministry beyond the immediate service area in Downtown Los Angeles.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) BASIS OF PRESENTATION

The financial statements of the Mission have been prepared utilizing the accrual basis of accounting.

#### (b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Mission are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) ACCOUNTING (continued)

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments; less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Temporarily Restricted.** The Mission reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose or time restrictions. Donor restricted contributions, whose restrictions have been met in the same reporting period, are reported as unrestricted support in the statement of activities. The Mission had \$1,271,000 of temporarily restricted net assets at June 30, 2016.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit the Mission to expend all of the income (or other economic benefits) derived from the donated assets. The Mission had \$317,000 of permanently restricted net assets at June 30, 2016.

#### (c) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short-term, highly liquid investments with maturities of three months or less at the time of purchase. The carrying value of cash equivalents approximates its fair value at June 30, 2016.

The Mission maintains its cash and cash equivalents in bank deposit accounts and other investment accounts, which, at times, may exceed federally insured limits. The Mission has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

#### (d) INVESTMENTS

Investments in equity and debt securities with readily determinable market values are reported at fair value. The fair value of these investments is determined based on the closing price on the last business day of the fiscal year.

Investment purchases and sales are accounted for on a trade-date basis. Realized and unrealized gains and losses are calculated based upon the underlying cost of the securities and on the sales prices, if sold. Interest and dividend income is recorded when earned. Realized and unrealized gains and losses and interest and dividend income are reflected in the statement of activities as investment income (loss).

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) INVESTMENTS (continued)

Investments are made according to the Investment Policies, Guidelines, and Objectives adopted by the Mission's Board. These guidelines provide for investments in equities, fixed income, and other securities with performance measured against appropriate indices. The investments are managed by outside investment managers contracted by the Mission. Market values of such investments and credit ratings of bond issuers are routinely reviewed by the Audit and Finance Committee of the Board.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

The Mission maintains a separate cash and investment account for its Annuity Reserve Fund. The balance in this Fund totaled \$347,000 at June 30, 2016.

#### (e) ACCOUNTS AND OTHER RECEIVABLES

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, if any, represents their estimated fair value. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, type of debtor, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. At June 30, 2016, all receivables are deemed fully collectible; therefore, no allowance for doubtful accounts has been established.

#### (f) BEQUESTS AND PLANNED GIVING

The Mission has been named as a beneficiary in a number of bequests. Certain of these gifts have not been recorded in the financial statements because the donors' wills have not yet been declared valid by the probate court and/or the value of the amounts to be received is not yet determinable. The Mission records and reports all gifts when declared valid and the amount is determinable.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **(g) CONTRIBUTIONS AND PLEDGES RECEIVABLE**

Unconditional contributions, including pledges recorded at estimated fair value, are recognized as revenues when the pledge is received. Conditional promises to give are not included as revenue until such time as the conditions are substantially met. A discount rate of 8.25% has been used to calculate the present value of one multi-year pledge receivable and 3.0% has been used for another. At June 30, 2016, the Mission evaluated the collectability of pledges receivable and established an allowance for uncollectible pledges receivable in the amount of \$21,000.

#### **(h) INVENTORY**

Inventory consists of materials designated in two areas: internal inventory and thrift store inventory. Internal inventory is used by shelter services and recovery programs, and for general administrative purposes. It includes food, beverages, hygiene items and office supplies purchased by or donated to the Mission and are valued at the lower of cost or market if purchased and at fair value at the date of donation, if donated. Thrift store inventory includes donations of clothes, housewares, toys, furniture and other saleable items also valued at fair value at the date of donation. The Mission utilizes the first-in, first-out method of inventory valuation.

#### **(i) BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS**

The Mission has been designated as the beneficiary of assets held in charitable remainder trusts administered by other trustees. The Mission recognizes temporarily restricted contribution revenue and, as a receivable, the present value of the estimated future benefits to be received when the trust assets are distributed. Adjustments to the receivable to reflect the revaluation of the present value of the estimated future payments to the Mission are recognized in the statement of activities as a change in value of beneficial interest in charitable remainder trusts. The carrying values of certain other trusts have not yet been determined; accordingly, such assets have not been recorded in the financial statements.

#### **(j) BENEFICIAL INTEREST IN PERPETUAL TRUST**

A donor has established and funded a trust, which is administered by organizations other than the Mission. Under the terms of the trust, the Mission has the irrevocable right to receive all or a portion of the income earned on the trust assets either in perpetuity or for the life of the trust. The Mission does not control the assets held by the outside trust. Annual distributions from the trust are reported as contribution income. Adjustments to the beneficial interest to reflect changes in the fair value (if any) are recognized in the statement of activities as a change in value of beneficial interest in perpetual trust.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **(k) LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment are recorded at cost if purchased or at fair value at the date of donation, if donated. Depreciation is provided over the estimated useful lives of the related assets on a straight-line basis as follows:

Buildings and Other Improvements	5-25 Years
Furniture and Equipment	3-5 Years
Computer Software	5 Years
Transportation Equipment	5 Years

Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Land, buildings and equipment are capitalized if the cost of an asset is equal to or greater than \$1,000 and the useful life is three years or greater.

#### **(l) LONG-LIVED ASSETS**

The Mission reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flow is less than the carrying amount of the assets, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended June 30, 2016.

#### **(m) DERIVATIVE FINANCIAL INSTRUMENTS**

The Mission recognizes all derivatives at fair value in accordance with generally accepted accounting principles. Interest rate protection agreements (swaps) are used from time-to-time to minimize interest rate risk and the Mission enters into such contracts only with financial institutions of good standing. Interest rate swaps are not used for trading or speculative purposes. During the year ended June 30, 2009, the Mission entered into an interest rate swap that has been accounted for as a fair value hedge. On July 1, 2014, the term loan swap expired, representing one-half of the term loan's principal, and reverted to a promissory note carrying a fixed rate of 3.24% for 60 months. The remaining half of the original interest rate swap remains intact for the remaining 60-month loan life. No amounts were recorded in the change in net assets during the year ended June 30, 2016 due to hedge ineffectiveness. The Mission had fixed rate debt in the principal amount of \$1,681,000 hedged with a variable rate interest rate swap at June 30, 2016.

#### **(n) ANNUITIES PAYABLE**

The Mission has received donations of assets in exchange for distributions of a fixed amount for a specific period of time to the donors or other beneficiaries. These gifts stipulate that annuity payments must be made to the donor or their designees until the time of death. The gifts are invested in money market funds, fixed income and equity securities. The Mission uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed rate of return of approximately 4.5% to 6.0% to determine the present value of the actuarially determined liability.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(o) CONTRIBUTED GOODS AND SERVICES**

Contributions of donated non-cash assets are recorded in a manner consistent with the Accord Network GIK Standards in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have donated significant amounts of their time to the Mission. The services that these individuals rendered, however, do not meet the above criteria and, as such, are not recognized as revenue.

**(p) INCOME TAXES**

Union Rescue Mission is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and the corresponding California provisions.

**(q) FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the Mission's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit which is determined by management through consideration of the portion of effort expended by each supporting department to each functional category.

**(r) USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(s) COMPARATIVE TOTALS**

The statement of activities includes prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the Mission's financial statements for the year ended June 30, 2015 from which the summarized information was derived.

**(t) PRESENTATION**

Amounts in the financial statements have been rounded to the nearest thousand dollars.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (u) NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and providing additional information about the amounts recorded in the financial statements. For the Mission, the ASU will be effective for the year ending June 30, 2021.

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. For the Mission, the ASU will be effective for the year ending June 30, 2019.

#### (v) SUBSEQUENT EVENTS

The Mission has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2016 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 18, 2016, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

### NOTE 3 - INVESTMENTS

Investments consist of the following at June 30, 2016:

Cash & Cash Equivalents	\$ 154,000
Equity Mutual Funds:	
Large Blend	649,000
Large Cap Value	98,000
Large Cap Growth	97,000
Mid Cap Growth	17,000
Small Cap Growth	14,000
Fixed Income Mutual Funds:	
Short Term	2,051,000
Multi-Sector	943,000
High Yield	597,000
Intermediate Term	128,000
Emerging Markets	16,000
Investment Fund Contract	1,028,000
Limited Partnership	100,000
<b>TOTAL INVESTMENTS</b>	<b>\$ 5,892,000</b>

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 3 - INVESTMENTS (continued)

Investment income for the year ended June 30, 2016 consists of the following:

Interest and Dividend Income	\$ 107,000
Net Realized and Unrealized Gains	83,000
Donated Stock Loss	(5,000)
Management Fees	(9,000)
	<u>176,000</u>
<b><i>INVESTMENT INCOME - NET</i></b>	<b><i>\$ 176,000</i></b>

### NOTE 4 - FAIR VALUE MEASUREMENTS

The Mission has implemented the accounting standard that defines fair value for those assets (and liabilities) that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset (or liability) and include situations where there is little, if any, market activity for the asset (or liability).

The following table presents information about the Mission's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2016 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended June 30, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>ASSETS:</b>				
Investment Fund Contract Limited Partnership	\$ 1,028,000	\$ -	\$ -	\$ 1,028,000
Cash Equivalents and Mutual Funds	100,000	-	-	100,000
Beneficial Interest in: Charitable Remainder Trusts	4,764,000	4,764,000	-	-
Perpetual Trust	424,000	-	-	424,000
	144,000	-	-	144,000
<b><i>TOTAL ASSETS</i></b>	<b><i>\$ 6,460,000</i></b>	<b><i>\$ 4,764,000</i></b>	<b><i>\$ -</i></b>	<b><i>\$ 1,696,000</i></b>
<b>LIABILITIES:</b>				
Annuities Payable	\$ 196,000	\$ -	\$ -	\$ 196,000
<b><i>TOTAL LIABILITIES</i></b>	<b><i>\$ 196,000</i></b>	<b><i>\$ -</i></b>	<b><i>\$ -</i></b>	<b><i>\$ 196,000</i></b>



# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

The fair values of investments within Level 1 inputs were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	Investment Fund Contract	Limited Partnership	Beneficial Interest in Charitable Remainder Trusts	Beneficial Interest in Perpetual Trust	
<b>ASSETS:</b>					
Beginning Balance	\$ -	\$ 100,000	\$ 469,000	\$ 153,000	\$ 722,000
Purchases	1,000,000	-	-	-	1,000,000
Receipt of Distributed Benefit	-	-	(65,000)	-	(65,000)
Change in Value	28,000	-	20,000	(9,000)	39,000
<b>ENDING BALANCE</b>	<b>\$ 1,028,000</b>	<b>\$ 100,000</b>	<b>\$ 424,000</b>	<b>\$ 144,000</b>	<b>\$ 1,696,000</b>

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Unrestricted - Annuities Payable	
<b>LIABILITIES:</b>		
Beginning Balance	\$	215,000
Payments to Annuitants		(31,000)
Change in Value of Annuities Payable		12,000
<b>ENDING BALANCE</b>	<b>\$</b>	<b>196,000</b>

**Investment Fund Contract:** Value based on market quotations from independent pricing services and broker-dealers, yield analysis, transaction prices and recovery models, and the Mission's ownership interest.

**Limited Partnership:** Valued based on the underlying asset-backed loan portfolio and the Mission's ownership interest.

**Beneficial Interest in Charitable Remainder Trusts:** Valued based on quoted market prices at the close of the last business day of the fiscal year and discounted to net present value using United States Internal Revenue Service actuarial tables. See Note 2(i).

**Beneficial Interest in Perpetual Trust:** Valued based on quoted market prices at the close of the last business day of the fiscal year. These investments are not readily redeemable, with distributions paid at the discretion of the fund manager. See Note 2(j).

**Annuities Payable:** Valued using published mortality rate tables adopted by the United States Internal Revenue Service and an assumed rate of return of approximately 4.5% to 6.0% to determine the present value of the actuarially determined liability.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future net values. Furthermore, while 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 Mission evaluates the classification of Level 1, 2 and 3 investments at the end of each reporting period. Transfers between Level 1 and 2 investments generally relate to whether a market becomes active or inactive. Transfers between Level 2 and 3 investments related to whether significant relevant observable inputs are available for the fair value measurement in their entirety and when redemption rules become more or less restrictive. There were no transfers between Level 1, 2 and 3 investments during the year ended June 30, 2016.

### NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2016 are expected to be collected as follows:

Less than One Year	\$ 1,538,000
One to Five Years	<u>161,000</u>
<b>GROSS PLEDGES RECEIVABLE</b>	1,699,000
Allowance for Uncollectible Pledges	(21,000)
Present Value Discount	<u>(32,000)</u>
<b>PLEDGES RECEIVABLE - NET</b>	<u>\$ 1,646,000</u>

### NOTE 6 - BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

The Mission is the beneficiary of six charitable remainder trusts administered by other trustees. Assets held in charitable remainder trusts totaled \$424,000 at June 30, 2016, representing the portion of the net present value of the charitable remainder trust assets for which the Mission is the designated beneficiary. One of the charitable remainder trusts, with a net present value of \$33,000 at June 30, 2016, is restricted to Hope Gardens Family Center. The remaining charitable remainder trusts, with a net present value of \$391,000 at June 30, 2016, are for the general charitable operations of Union Rescue Mission.

### NOTE 7 - BENEFICIAL INTEREST IN PERPETUAL TRUST

The Mission is the beneficiary of a trust whose assets are not under its control. The Mission has legally enforceable rights or claims to its beneficial interest in the annual income from the trust. During the year ended June 30, 2016, the Mission received \$7,000 of income from the trust, and the carrying value of the Mission's beneficial interest in this trust at June 30, 2016 is \$144,000.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 8 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following as of June 30, 2016:

Land	\$ 9,337,000
Buildings and Other Improvements	37,175,000
Furniture and Equipment	3,991,000
Computer Software	621,000
Transportation Equipment	626,000
Construction in Progress	1,454,000
<b>TOTAL</b>	<b>53,204,000</b>
Less: Accumulated Depreciation	(29,030,000)
<b>LAND, BUILDINGS AND EQUIPMENT - NET</b>	<b>\$ 24,174,000</b>

Depreciation and amortization expense for the year ended June 30, 2016 was \$1,798,000.

The Mission is in the process of renovating Hope Gardens Family Center. The estimated cost of construction is \$4,670,000. As of June 30, 2016, \$4,404,000 has been expended. The remaining cost to complete Hope Gardens Family Center is estimated at \$266,000. Funds to renovate Hope Gardens Family Center are provided by contributions.

Interest capitalized as part of building improvements and construction in progress during the year ended June 30, 2016 amounted to \$34,000.

### NOTE 9 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at June 30, 2016:

Accounts Payable	\$ 445,000
Accrued Expenses	156,000
Accrued Payroll	239,000
Funds Held for Others	497,000
Accrued Vacation	407,000
<b>TOTAL ACCOUNTS PAYABLE AND ACCRUED EXPENSES</b>	<b>\$ 1,744,000</b>

### NOTE 10 - LINE OF CREDIT

The Mission has an operating line of credit with current permissible borrowings of \$2,000,000. The line of credit is secured by land and buildings (545 South San Pedro Street, Los Angeles, California). Interest is payable monthly at the bank's prime rate plus 1%. The maturity date is February 2018. The bank's prime rate at June 30, 2016 was 3.50%. As of June 30, 2016, no money was borrowed against the line.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 11 - NOTES PAYABLE

Notes payable consist of the following at June 30, 2016:

Term Loan - Bank, Secured by Land and Buildings (545 South San Pedro Street, Los Angeles, California), Payable in Monthly Installments of Principal and Interest at 3.20% Plus Variable LIBOR under Interest Rate Swap Agreement, Due July 2019	\$ 1,681,000
Term Loan - Bank, Secured by Land and Buildings (545 South San Pedro Street, Los Angeles, California), Payable in Monthly Installments of Principal and Interest at 3.24% Fixed, Due July 2019	1,625,000
Note Payable - Trust, Secured by Mission Assets, Subordinate to the Term Loan, Bearing an Interest Rate of 5.0%, Interest Only Payable Monthly, Principal Payable in Annual Installments of \$50,000 to \$150,000, Due Five Years After Commencement of Thrift Store Operations, September 2019	458,000
Note Payable - Foundation, Unsecured, Subordinate to the Term Loan, Bearing Interest Rate of 5.0%, Interest Only Payable Every Six Months, Principal Payable in Annual Installments of \$5,000 to \$30,000, Due Five Years After Commencement of Thrift Store Operations, September 2019.	54,000
Note Payable - Company, Secured by Related Property, Bearing an Interest Rate of 3.9%, Payable in Monthly Installments of \$343, Due June 2019	12,000
<b>TOTAL NOTES PAYABLE</b>	<b>\$ 3,830,000</b>

The future maturity of notes payable at June 30, 2016 is as follows:

#### Years Ending June 30

2017	\$ 1,133,000
2018	1,178,000
2019	1,236,000
2020	283,000
<b>TOTAL</b>	<b>\$ 3,830,000</b>

The interest rate swap effectively fixes the interest rate for the term loan. The outstanding interest rate swap agreement at June 30, 2016 has the following terms:

Notional Amount	\$ 1,681,000
Interest Rate (Receive)	1 Month LIBOR plus 3.2%
Interest Rate (Pay)	6.42%
Maturity	July 2019

At June 30, 2016, the rate for the one-month LIBOR was 0.4651%.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### **NOTE 11 - NOTES PAYABLE (continued)**

The notional amount under the swap agreement decreases as principal payments are made on the term loan so that the notional amount equals the principal outstanding under the term loan. The swap agreement qualifies for hedge accounting (no ineffectiveness) under generally accepted accounting provisions; therefore, the interest rate swap liability is exactly offset by a corresponding reduction in the term loan liability. At June 30, 2016, the carrying value of the term loan remained unchanged.

### **NOTE 12 - ANNUITIES PAYABLE**

The Mission is in receipt of 35 charitable annuity gifts from individuals. The value at establishment and corresponding reasonably commensurate values at June 30, 2016 are \$362,000 and \$196,000 respectively. The Mission has established a segregated reserve fund of \$347,000 which equals 177% of the present value annuities payable balance.

### **NOTE 13 - COMMUNITY OUTREACH PROGRAM**

The Mission conducts a Community Outreach Program that provides various donated products such as food, hygiene items and medical supplies to the poor and homeless outside the immediate service area of the Mission. Recipients of the products during the year ended June 30, 2016 were located in the United States.

The products are donated primarily by corporations. The receipt of donated products by the Mission for this program is reflected as gifts-in-kind revenue and the distribution to the recipients is reflected as gifts-in-kind distribution expense in the statement of functional expenses. The donated products are valued in a manner consistent with Accord Network GIK Standards.

Of the \$2,612,000 gifts-in-kind revenue reflected in the statement of activities for the year ended June 30, 2016, \$1,519,000 are gifts-in-kind used by the Mission in its own programs and thrift store. The balance of \$1,093,000 was provided to other non-profit organizations through the Mission's Community Outreach Program.

### **NOTE 14 - COMMITMENTS AND CONTINGENCIES**

#### **(a) LEGAL PROCEEDINGS**

In the ordinary course of conducting its business, the Mission becomes involved in various lawsuits. Some of these proceedings may result in judgments being assessed against the Mission which, from time to time, may have an impact on changes in net assets. The Mission does not believe that these proceedings, individually or in the aggregate, would have a material effect on the financial statements.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 14 - COMMITMENTS AND CONTINGENCIES (continued)

#### (b) OBLIGATIONS UNDER OPERATING LEASE

The Mission leases the facility for its thrift store under an operating lease with an initial term expiring in March 2024. The following is a schedule of future minimum lease payments on this operating lease:

Years Ending June 30	
2017	\$ 117,000
2018	117,000
2019	130,000
2020	169,000
2021	169,000
Thereafter	<u>464,000</u>
<b>TOTAL</b>	<b>\$ <u>1,166,000</u></b>

Rent expense under this operating lease for the year ended June 30, 2016 was \$136,000 and is included in occupancy expense.

### NOTE 15 - RETIREMENT PLAN

The Mission has a defined contribution retirement plan for all full-time employees. Eligible employees may contribute annually up to the applicable Internal Revenue Service limitations. The Mission started a matching program in March 2016. During the year ended June 30, 2016, the Mission made \$7,000 in matching retirement contributions.

### NOTE 16 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2016:

Charitable Remainder Trusts - Mission Operations	\$ 391,000
Charitable Remainder Trust - Hope Gardens Family Center	33,000
Capital Campaign	179,000
Donor Restricted Contributions	<u>668,000</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>	<b>\$ <u>1,271,000</u></b>

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 17 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are invested in perpetuity. The principal balance, from which only the investment income is expendable to support the programs specified by the donors, are comprised of the following at June 30, 2016:

Beneficial Interest in:	
Perpetual Trust	\$ 144,000
Pledge Receivable	109,000
Endowments	64,000
<b><i>PERMANENTLY RESTRICTED NET ASSETS</i></b>	<b>\$ 317,000</b>

### NOTE 18 - ENDOWMENTS

The Mission's endowments consist of funds established for a variety of purposes. Endowment funds are established by donor-restricted gifts to provide a permanent endowment, which is to provide a permanent source of income to the Mission.

The Mission's management understands California State law as (1) requiring the preservation of the fair market value of the original gifts as of the gift date of the donor restricted endowment funds, and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

The primary long-term financial objective for the Mission's endowments is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, annual growth percentage and costs of portfolio management.

The Mission's Board of Directors developed a spending policy which restricts the use of endowment funds to 4.5% of the average market value of the total endowment portfolio over the past 12 quarters (3 years) with the gift instrument taking precedence over this policy. This policy will allow for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowment. In addition, this policy will minimize the probability of invading the principal over the long term.

<b>Endowment Net Asset Composition by Type of Fund at June 30, 2016</b>	<b>Permanently Restricted</b>
Donor-Restricted	\$ 64,000
<b>Changes in Endowment Net Assets for the Year Ended June 30, 2016</b>	
Endowment Net Assets - Beginning of Year	\$ 64,000
Dividend	4,000
Unrealized Losses on Investment	(4,000)
<b><i>ENDOWMENT NET ASSETS - END OF YEAR</i></b>	<b>\$ 64,000</b>

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### NOTE 19 - RELATED PARTY TRANSACTIONS

The Mission is affiliated with EIMAGO, Inc., a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. EIMAGO, Inc. ceased program operations as of June 30, 2011; however, the organization continues to exist as a legal entity. For the year ended June 30, 2016, no expenses were charged to EIMAGO, Inc. As of June 30, 2016, EIMAGO, Inc. had no amounts owing to the Mission.

### NOTE 20 - ALLOCATION OF JOINT COSTS

Through certain fundraising activities, the Mission incurred joint costs of \$1,108,000 to expand its mission to inform the public of a 10-step plan to end homelessness in Los Angeles and what they can do to help. Of those costs, \$960,000 was allocated to fundraising expenses, and \$74,000 was allocated to both the shelter services and recovery program services, respectively.

### NOTE 21 - THRIFT STORE

The thrift store has been in operation for 21 months. The following is a summary of results of its operations for the fiscal year ended June 30, 2016:

Gifts-in-Kind Revenue	\$	465,000
Sales Revenue		465,000
Miscellaneous Revenue		<u>12,000</u>
<b>TOTAL REVENUE</b>		942,000
Gifts-In-Kind Cost of Goods Sold		(580,000)
Operating Expenses		<u>(607,000)</u>
<b>NET LOSS ON OPERATIONS</b>	\$	<u>(245,000)</u>