

# **UNION RESCUE MISSION**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

**UNION RESCUE MISSION**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2017**

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## **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, 2017, 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, 2017 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Green Hasson & Janks LLP*

October 17, 2017  
Los Angeles, California

# UNION RESCUE MISSION

## STATEMENT OF FINANCIAL POSITION June 30, 2017 With Comparative Totals at June 30, 2016

| <b>ASSETS</b>                                      | <u>2017</u>                 | <u>2016</u>                 |
|--|-----------------------------|-----------------------------|
| Cash and Cash Equivalents                          | \$ 1,995,000                | \$ 3,602,000                |
| Investments  | 8,817,000                   | 5,892,000                   |
| Accounts and Other Receivables                     | 19,000                      | 28,000                      |
| Bequests Receivable                                | 889,000                     | 22,000                      |
| Pledges Receivable - Net                           | 6,092,000                   | 1,646,000                   |
| Inventory  | 297,000                     | 186,000                     |
| Prepaid Expenses and Other Assets                  | 506,000                     | 839,000                     |
| Beneficial Interest in Charitable Remainder Trusts | 365,000                     | 424,000                     |
| Beneficial Interest in Perpetual Trust             | 151,000                     | 144,000                     |
| Land, Buildings and Equipment - Net                | 23,460,000                  | 24,174,000                  |
| <b><i>TOTAL ASSETS</i></b>                         | <b><u>\$ 42,591,000</u></b> | <b><u>\$ 36,957,000</u></b> |
| <b>LIABILITIES AND NET ASSETS</b>                  |                             |                             |
| <b>LIABILITIES:</b>                                |                             |                             |
| Accounts Payable and Accrued Expenses              | \$ 1,963,000                | \$ 1,744,000                |
| Notes Payable                                      | 2,814,000                   | 3,830,000                   |
| Annuities Payable                                  | 190,000                     | 196,000                     |
| <b><i>TOTAL LIABILITIES</i></b>                    | <b><u>4,967,000</u></b>     | <b><u>5,770,000</u></b>     |
| <b>NET ASSETS:</b>                                 |                             |                             |
| Unrestricted                                       | 26,931,000                  | 29,599,000                  |
| Temporarily Restricted                             | 10,369,000                  | 1,271,000                   |
| Permanently Restricted                             | 324,000                     | 317,000                     |
| <b><i>TOTAL NET ASSETS</i></b>                     | <b><u>37,624,000</u></b>    | <b><u>31,187,000</u></b>    |
| <b><i>TOTAL LIABILITIES AND NET ASSETS</i></b>     | <b><u>\$ 42,591,000</u></b> | <b><u>\$ 36,957,000</u></b> |

The Accompanying Notes are an Integral Part of These Financial Statements

## UNION RESCUE MISSION

### STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

With Summarized Totals for the Year Ended June 30, 2016

|  | 2017                 |                           |                           | Total                | 2016<br>Total        |
|--|----------------------|---------------------------|---------------------------|----------------------|----------------------|
|  | Unrestricted         | Temporarily<br>Restricted | Permanently<br>Restricted |                      |                      |
| <b>PUBLIC SUPPORT:</b>   |                      |                           |                           |                      |                      |
| Contributions  | \$ 12,800,000        | \$ 9,946,000              | \$ -                      | \$ 22,746,000        | \$ 12,444,000        |
| Gifts-in-Kind  | 3,834,000            | -                         | -                         | 3,834,000            | 2,612,000            |
| Bequests and Planned Giving  | 1,557,000            | -                         | -                         | 1,557,000            | 5,361,000            |
| Special Events - Net of Direct Donor Benefits of \$383,000           | 887,000              | -                         | -                         | 887,000              | 4,406,000            |
| Change in Value - Beneficial Interest in Charitable Remainder Trusts | -                    | (60,000)                  | -                         | (60,000)             | 20,000               |
| Change in Value - Beneficial Interest in Perpetual Trust             | -                    | -                         | 7,000                     | 7,000                | (9,000)              |
| Net Assets Released from Purpose Restrictions                        | 796,000              | (796,000)                 | -                         | -                    | -                    |
| <b>TOTAL PUBLIC SUPPORT</b>  | <b>19,874,000</b>    | <b>9,090,000</b>          | <b>7,000</b>              | <b>28,971,000</b>    | <b>24,834,000</b>    |
| <b>OTHER REVENUE:</b>  |                      |                           |                           |                      |                      |
| Thrift Store Revenue   | 561,000              | -                         | -                         | 561,000              | 465,000              |
| Other Income   | 453,000              | -                         | -                         | 453,000              | 546,000              |
| Investment Income - Net  | 746,000              | 8,000                     | -                         | 754,000              | 176,000              |
| <b>TOTAL OTHER REVENUE</b>   | <b>1,760,000</b>     | <b>8,000</b>              | <b>-</b>                  | <b>1,768,000</b>     | <b>1,187,000</b>     |
| <b>TOTAL PUBLIC SUPPORT AND OTHER REVENUE</b>                        | <b>21,634,000</b>    | <b>9,098,000</b>          | <b>7,000</b>              | <b>30,739,000</b>    | <b>26,021,000</b>    |
| <b>OPERATING EXPENSES:</b>   |                      |                           |                           |                      |                      |
| <b>Program Services:</b>   |                      |                           |                           |                      |                      |
| Shelter Services   | 7,398,000            | -                         | -                         | 7,398,000            | 6,443,000            |
| Recovery Programs  | 9,885,000            | -                         | -                         | 9,885,000            | 9,016,000            |
| Community Outreach   | 1,854,000            | -                         | -                         | 1,854,000            | 1,538,000            |
| <b>TOTAL PROGRAM SERVICES</b>  | <b>19,137,000</b>    | <b>-</b>                  | <b>-</b>                  | <b>19,137,000</b>    | <b>16,997,000</b>    |
| <b>Support Services:</b>   |                      |                           |                           |                      |                      |
| Management and General   | 1,837,000            | -                         | -                         | 1,837,000            | 1,872,000            |
| Fundraising  | 3,328,000            | -                         | -                         | 3,328,000            | 3,132,000            |
| <b>TOTAL SUPPORT SERVICES</b>  | <b>5,165,000</b>     | <b>-</b>                  | <b>-</b>                  | <b>5,165,000</b>     | <b>5,004,000</b>     |
| <b>TOTAL OPERATING EXPENSES</b>                                      | <b>24,302,000</b>    | <b>-</b>                  | <b>-</b>                  | <b>24,302,000</b>    | <b>22,001,000</b>    |
| <b>CHANGE IN NET ASSETS</b>  | <b>(2,668,000)</b>   | <b>9,098,000</b>          | <b>7,000</b>              | <b>6,437,000</b>     | <b>4,020,000</b>     |
| Net Assets - Beginning of Year                                       | 29,599,000           | 1,271,000                 | 317,000                   | 31,187,000           | 27,167,000           |
| <b>NET ASSETS - END OF YEAR</b>                                      | <b>\$ 26,931,000</b> | <b>\$ 10,369,000</b>      | <b>\$ 324,000</b>         | <b>\$ 37,624,000</b> | <b>\$ 31,187,000</b> |

The Accompanying Notes are an Integral Part of These Financial Statements

## UNION RESCUE MISSION

### STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017

With Summarized Totals for the Year Ended June 30, 2016

|   | 2017                |                      |                       |                           |                           |                     |                      | 2016<br>Total        |
|---|---------------------|----------------------|-----------------------|---------------------------|---------------------------|---------------------|----------------------|----------------------|
|   | Program Services    |                      |                       |                           | Support Services          |                     | Total                |                      |
|   | Shelter<br>Services | Recovery<br>Programs | Community<br>Outreach | Total Program<br>Services | Management<br>and General | Fundraising         |                      |                      |
| Payroll and Related Expenses              | \$ 4,189,000        | \$ 4,512,000         | \$ 263,000            | \$ 8,964,000              | \$ 1,198,000              | \$ 914,000          | \$ 11,076,000        | \$ 10,151,000        |
| Depreciation and Amortization             | 543,000             | 1,242,000            | -                     | 1,785,000                 | 80,000                    | 23,000              | 1,888,000            | 1,765,000            |
| Food and Kitchen Supplies                 | 936,000             | 888,000              | 140,000               | 1,964,000                 | 18,000                    | -                   | 1,982,000            | 1,680,000            |
| Donor Appeals                             | 106,000             | 104,000              | 3,000                 | 213,000                   | 3,000                     | 1,405,000           | 1,621,000            | 1,611,000            |
| Occupancy                                 | 441,000             | 957,000              | 3,000                 | 1,401,000                 | 149,000                   | 11,000              | 1,561,000            | 1,475,000            |
| Supplies and Program<br>Expenses          | 609,000             | 730,000              | 103,000               | 1,442,000                 | 37,000                    | 302,000             | 1,781,000            | 1,179,000            |
| Gifts-in-Kind Distribution                | -                   | -                    | 1,272,000             | 1,272,000                 | -                         | -                   | 1,272,000            | 1,093,000            |
| Professional Consultation                 | 105,000             | 106,000              | 2,000                 | 213,000                   | 28,000                    | 607,000             | 848,000              | 854,000              |
| Vehicles and Equipment<br>Expenses        | 215,000             | 506,000              | 3,000                 | 724,000                   | 67,000                    | -                   | 791,000              | 672,000              |
| Thrift Store Operations                   | -                   | 527,000              | -                     | 527,000                   | -                         | -                   | 527,000              | 607,000              |
| Miscellaneous                             | 152,000             | 167,000              | 51,000                | 370,000                   | 139,000                   | 61,000              | 570,000              | 488,000              |
| Insurance                                 | 102,000             | 146,000              | 14,000                | 262,000                   | 7,000                     | 5,000               | 274,000              | 274,000              |
| Interest                                  | -                   | -                    | -                     | -                         | 111,000                   | -                   | 111,000              | 152,000              |
| <b>TOTAL 2017<br/>FUNCTIONAL EXPENSES</b> | <b>\$ 7,398,000</b> | <b>\$ 9,885,000</b>  | <b>\$ 1,854,000</b>   | <b>\$ 19,137,000</b>      | <b>\$ 1,837,000</b>       | <b>\$ 3,328,000</b> | <b>\$ 24,302,000</b> |                      |
| <b>TOTAL 2016<br/>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>\$ 22,001,000</b> |

The Accompanying Notes are an Integral Part of These Financial Statements

# UNION RESCUE MISSION

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

With Comparative Totals for the Year Ended June 30, 2016

|  | 2017         | 2016         |
|--|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |              |              |
| Change in Net Assets   | \$ 6,437,000 | \$ 4,020,000 |
| Adjustments to Reconcile Change in Net Assets to<br>Net Cash Provided by Operating Activities: |              |              |
| Depreciation and Amortization  | 1,888,000    | 1,798,000    |
| (Gain) Loss on Disposal of Assets  | 1,000        | 2,000        |
| Donated Equipment  | -            | (1,000)      |
| Donated Stock  | (861,000)    | (481,000)    |
| Proceeds from Sale of Donated Stock  | 865,000      | 476,000      |
| (Gain) Loss on Sale of Donated Stock   | (4,000)      | 5,000        |
| Change in Value of Discount of Pledges Receivable  | 125,000      | -            |
| Realized and Unrealized Gains on Investments   | (466,000)    | (83,000)     |
| Change in Value of Annuities Payable   | 27,000       | 12,000       |
| Change in Value of Beneficial Interest in Charitable<br>Remainder Trusts                       | 60,000       | (20,000)     |
| Change in Value of Beneficial Interest in Perpetual Trust                                      | (7,000)      | 9,000        |
| Contributions Restricted for Investment in Land,<br>Buildings and Equipment                    | (9,946,000)  | (659,000)    |
| Contributions Restricted for Investment in Perpetuity  | -            | (3,000)      |
| Decrease (Increase) in:  |              |              |
| Accounts and Other Receivables   | 6,000        | (12,000)     |
| Bequests Receivable  | (867,000)    | 654,000      |
| Pledges Receivable   | (488,000)    | (669,000)    |
| Inventory  | (111,000)    | (38,000)     |
| Prepaid Expenses and Other Assets  | 333,000      | (590,000)    |
| Increase in:   |              |              |
| Accounts Payable and Accrued Expenses  | 219,000      | 81,000       |
| Payments on Annuities Payable  | (33,000)     | (31,000)     |
|  | (2,822,000)  | 4,470,000    |
| <b>NET CASH PROVIDED BY<br/>(USED IN) OPERATING ACTIVITIES</b>                                 |              |              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |              |              |
| Purchase of Investments  | (5,290,000)  | (5,200,000)  |
| Reinvested Interest and Dividends  | (284,000)    | (98,000)     |
| Proceeds from Sale of Investments  | 3,114,000    | 30,000       |
| Purchase of Land, Buildings and Equipment  | (1,150,000)  | (195,000)    |
| Proceeds from Sale of Land, Buildings and Equipment  | -            | 2,000        |
| Interest Capitalized into Land, Buildings and Equipment  | (25,000)     | (34,000)     |
|  | (3,635,000)  | (5,495,000)  |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   |              |              |

The Accompanying Notes are an Integral Part of These Financial Statements

# UNION RESCUE MISSION

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

With Comparative Totals for the Year Ended June 30, 2016

|  | <u>2017</u>                | <u>2016</u>                |
|--|----------------------------|----------------------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                            |                            |
| Contributions Restricted for Investment in Perpetuity  | \$ -                       | \$ 3,000                   |
| Proceeds from Distribution of Beneficial Interest in Charitable Remainder Trust  | -                          | 65,000                     |
| Proceeds from Contributions Restricted for Investment in Land, Buildings and Equipment   | 5,866,000                  | 659,000                    |
| Proceeds from Notes Payable  | -                          | 27,000                     |
| Payments on Notes Payable  | <u>(1,016,000)</u>         | <u>(1,049,000)</u>         |
| <b><i>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</i></b>  | <u>4,850,000</u>           | <u>(295,000)</u>           |
| <b><i>NET DECREASE IN CASH AND CASH EQUIVALENTS</i></b>  | (1,607,000)                | (1,320,000)                |
| Cash and Cash Equivalents - Beginning of Year  | <u>3,602,000</u>           | <u>4,922,000</u>           |
| <b><i>CASH AND CASH EQUIVALENTS - END OF YEAR</i></b>  | <u><u>\$ 1,995,000</u></u> | <u><u>\$ 3,602,000</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 \$25,000 in 2017 and \$34,000 in 2016) | \$ 111,000                 | \$ 152,000                 |

The Accompanying Notes are an Integral Part of These Financial Statements



# **UNION RESCUE MISSION**

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2017

### **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 Union Rescue Mission provide food, shelter and clothing for impoverished men, women and children. Founded in 1891, Union Rescue 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. Union Rescue 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.

Union Rescue 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.

Union Rescue 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 Union Rescue Mission which includes 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 Union Rescue 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 Union Rescue 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, 2017

### 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 \$10,369,000 of temporarily restricted net assets at June 30, 2017.
- **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 \$324,000 of permanently restricted net assets at June 30, 2017.

#### (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, 2017.

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, 2017

### 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 \$361,000 at June 30, 2017.

#### (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, 2017, 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, 2017

### 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 3.0% has been used to calculate the present value of pledge receivables. At June 30, 2017, the Mission evaluated the collectability of pledges receivable and established an allowance for uncollectible pledges receivable in the amount of \$19,000.

#### **(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. The carrying values of certain other trusts have not yet been determined; accordingly, such assets have not been recorded in the financial statements.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

### 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, 2017.

#### (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, 2017 due to hedge ineffectiveness. The Mission had fixed rate debt in the principal amount of \$1,176,000 hedged with a variable rate interest rate swap at June 30, 2017.

#### (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, 2017

### 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, 2016 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, 2017

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

#### (u) NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance. For non-public entities, the new standard was originally effective for annual periods beginning after December 15, 2017. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) - Deferral of Effective Date*, which deferred the effective date for one year. Accordingly, this ASU will be effective for the Mission for the year ending June 30, 2019. The Mission is currently evaluating the effect the provisions of ASU 2014-09 will have on the financial statements.

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The ASU Eliminates the requirement to categorize investments in the fair value hierarchy if the fair value is measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. For the Mission, the ASU will be effective for fiscal year ending June 30, 2018.

In February 2016, the FASB issued 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, 2017 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 17, 2017, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

### NOTE 3 - INVESTMENTS

Investments consist of the following at June 30, 2017:

|                            |           |                         |
|----------------------------|-----------|-------------------------|
| Cash & Cash Equivalents    | \$        | 190,000                 |
| Equity Mutual Funds:       |           |                         |
| Large Blend                |           | 750,000                 |
| Large Cap Value            |           | 77,000                  |
| Large Cap Growth           |           | 132,000                 |
| Mid Cap Growth             |           | 27,000                  |
| Fixed Income Mutual Funds: |           |                         |
| Short Term                 |           | 4,763,000               |
| Multi-Sector               |           | 824,000                 |
| High Yield                 |           | 673,000                 |
| Intermediate Term          |           | 145,000                 |
| Investment Fund Contract   |           | 1,136,000               |
| Limited Partnership        |           | 100,000                 |
|                            |           | <hr/>                   |
| <b>TOTAL INVESTMENTS</b>   | <b>\$</b> | <b><u>8,817,000</u></b> |

Investment income for the year ended June 30, 2017 consists of the following:

|                                   |           |                       |
|-----------------------------------|-----------|-----------------------|
| Interest and Dividend Income      | \$        | 290,000               |
| Net Realized and Unrealized Gains |           | 466,000               |
| Donated Stock Gain                |           | 4,000                 |
| Management Fees                   |           | (6,000)               |
|                                   |           | <hr/>                 |
| <b>INVESTMENT INCOME - NET</b>    | <b>\$</b> | <b><u>754,000</u></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).



# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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, 2017 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

|                           | Year Ended<br>June 30, 2017 | Fair Value Measurements Using   |   |  |
|---------------------------|-----------------------------|---|---|--|
|                           |                             | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>ASSETS:</b>            |                             |   |   |  |
| Cash and Cash Equivalents | \$ 190,000                  | \$ 190,000  | \$ -  | \$ -   |
| Mutual Funds              | 7,391,000                   | 7,391,000   | -   | -  |
| Investment Fund Contract  | 1,136,000                   | -   | -   | 1,136,000  |
| Limited Partnership       | 100,000                     | -   | -   | 100,000  |
| Beneficial Interest in:   |                             |   |   |  |
| Charitable Remainder      |                             |   |   |  |
| Trusts                    | 365,000                     | -   | -   | 365,000  |
| Perpetual Trust           | 151,000                     | -   | -   | 151,000  |
| <b>TOTAL ASSETS</b>       | <b>\$ 9,333,000</b>         | <b>\$ 7,581,000</b>   | <b>\$ -</b>   | <b>\$ 1,752,000</b>                                |
| <b>LIABILITIES:</b>       |                             |   |   |  |
| Annuities Payable         | \$ 190,000                  | \$ -  | \$ -  | \$ 190,000   |
| <b>TOTAL LIABILITIES</b>  | <b>\$ 190,000</b>           | <b>\$ -</b>   | <b>\$ -</b>   | <b>\$ 190,000</b>                                  |

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<br>Significant Unobservable Inputs (Level 3) |                        |  |   |                     |
|-----------------------------------|--|------------------------|--|---|---------------------|
|                                   | Unrestricted   |                        | Temporarily<br>Restricted                                      | Permanently<br>Restricted                       | Total               |
|                                   | Investment<br>Fund Contract  | Limited<br>Partnership | Beneficial<br>Interest in<br>Charitable<br>Remainder<br>Trusts | Beneficial<br>Interest in<br>Perpetual<br>Trust |                     |
| <b>ASSETS:</b>                    |  |                        |  |   |                     |
| Beginning Balance                 | \$ 1,028,000   | \$ 100,000             | \$ 424,000   | \$ 144,000                                      | \$ 1,696,000        |
| Purchases                         | -  | -                      | -  | -   | -                   |
| Receipt of Distributed<br>Benefit | -  | (5,000)                | -  | -   | (5,000)             |
| Change in Value                   | 108,000  | 5,000                  | (59,000)   | 7,000   | 61,000              |
| <b>ENDING<br/>BALANCE</b>         | <b>\$ 1,136,000</b>  | <b>\$ 100,000</b>      | <b>\$ 365,000</b>  | <b>\$ 151,000</b>                               | <b>\$ 1,752,000</b> |

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

|                                      | Fair Value Measurements Using<br>Significant Unobservable Inputs<br>(Level 3) |
|--------------------------------------|---|
|                                      | Unrestricted -<br>Annuities<br>Payable  |
| <b>LIABILITIES:</b>                  |   |
| Beginning Balance                    | \$ 196,000  |
| Payments to Annuitants               | (33,000)  |
| Change in Value of Annuities Payable | 27,000  |
| <b><i>ENDING BALANCE</i></b>         | <b>\$ 190,000</b>   |

Investment Fund Contract and Limited Partnership: The Fair value of the funds are based on the net asset value per share (NAV) of units held by The Mission. These investments (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Investments in funds of hedge funds are invested in a number of strategies including, but not limited to, equity long/short, arbitrage and event-driven, and distressed. Investments are valued using the NAV provided by the fund managers. Redemption frequency is ninety days. There are no unfunded commitments at June 30, 2017.

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.

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, 2017.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

### NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2017 are expected to be collected as follows:

|                                     |                     |
|-------------------------------------|---------------------|
| Less than One Year                  | \$ 3,351,000        |
| One to Five Years                   | <u>2,916,000</u>    |
| <b>GROSS PLEDGES RECEIVABLE</b>     | 6,267,000           |
| Allowance for Uncollectible Pledges | (19,000)            |
| Present Value Discount              | <u>(156,000)</u>    |
| <b>PLEDGES RECEIVABLE - NET</b>     | <u>\$ 6,092,000</u> |

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

The Mission is the beneficiary of five charitable remainder trusts administered by other trustees. Assets held in charitable remainder trusts totaled \$365,000 at June 30, 2017, 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 \$35,000 at June 30, 2017, is restricted to Hope Gardens Family Center. The remaining charitable remainder trusts, with a net present value of \$330,000 at June 30, 2017, 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, 2017, 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, 2017 is \$151,000.

### NOTE 8 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following as of June 30, 2017:

|  |                      |
|--|----------------------|
| Land                                       | \$ 9,337,000         |
| Buildings and Other Improvements           | 38,710,000           |
| Furniture and Equipment                    | 3,755,000            |
| Computer Software                          | 845,000              |
| Transportation Equipment                   | 632,000              |
| Construction in Progress                   | <u>786,000</u>       |
| <b>TOTAL</b>                               | 54,065,000           |
| Less: Accumulated Depreciation             | <u>(30,605,000)</u>  |
| <b>LAND, BUILDINGS AND EQUIPMENT - NET</b> | <u>\$ 23,460,000</u> |

**UNION RESCUE MISSION**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2017

**NOTE 8 - LAND, BUILDINGS AND EQUIPMENT (continued)**

Depreciation and amortization expense for the year ended June 30, 2017 was \$1,888,000.

The Mission is in the process of renovating Hope Gardens Family Center. The estimated cost of construction is \$4,839,000. As of June 30, 2017, \$4,643,000 has been expended. The remaining cost to complete Hope Gardens Family Center is estimated at \$196,000. 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, 2017 amounted to \$25,000.

**NOTE 9 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consist of the following at June 30, 2017:

|  |           |                  |
|--|-----------|------------------|
| Accounts Payable                                       | \$        | 659,000          |
| Accrued Expenses                                       |           | 81,000           |
| Accrued Payroll  |           | 274,000          |
| Funds Held for Others                                  |           | 503,000          |
| Accrued Vacation                                       |           | 446,000          |
|  |           | <hr/>            |
| <b>TOTAL ACCOUNTS PAYABLE AND<br/>ACCRUED EXPENSES</b> | <b>\$</b> | <b>1,963,000</b> |
|  |           | <hr/>            |

**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, 2017 was 4.5%. As of June 30, 2017, no money was borrowed against the line.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

### NOTE 11 - NOTES PAYABLE

Notes payable consist of the following at June 30, 2017:

|   |                            |
|---|----------------------------|
| 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   | \$ 1,176,000               |
| 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  | 1,115,000                  |
| 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.       | 57,000                     |
| Note Payable - Company, Secured by Related Property, Bearing an Interest Rate of 3.9%, Payable in Monthly Installments of \$343, Due June 2019  | <u>8,000</u>               |
| <b><i>TOTAL NOTES PAYABLE</i></b>   | <b><u>\$ 2,814,000</u></b> |

The future maturity of notes payable at June 30, 2017 is as follows:

#### Years Ending June 30

|                     |                            |
|---------------------|----------------------------|
| 2018                | \$ 1,295,000               |
| 2019                | 1,236,000                  |
| 2020                | <u>283,000</u>             |
| <b><i>TOTAL</i></b> | <b><u>\$ 2,814,000</u></b> |

The interest rate swap effectively fixes the interest rate for the term loan. The outstanding interest rate swap agreement at June 30, 2017 has the following terms:

|                         |                         |
|-------------------------|-------------------------|
| Notional Amount         | \$ 1,176,000            |
| Interest Rate (Receive) | 1 Month LIBOR plus 3.2% |
| Interest Rate (Pay)     | 6.42%                   |
| Maturity                | July 2019               |

At June 30, 2017, the rate for the one-month LIBOR was 1.06033%.

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, 2017, the carrying value of the term loan remained unchanged.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

### NOTE 12 - ANNUITIES PAYABLE

The Mission is in receipt of 34 charitable annuity gifts from individuals. The value at establishment and corresponding reasonably commensurate values at June 30, 2017 are \$362,000 and \$190,000 respectively. The Mission has established a segregated reserve fund of \$361,000 which equals 190% 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, 2017 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 \$3,834,000 gifts-in-kind revenue reflected in the statement of activities for the year ended June 30, 2017, \$2,562,000 are gifts-in-kind used by the Mission in its own programs and thrift store. The balance of \$1,272,000 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.

#### (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 |                     |
|----------------------|---------------------|
| 2018                 | \$ 150,000          |
| 2019                 | 130,000             |
| 2020                 | 169,000             |
| 2021                 | 169,000             |
| 2022                 | 169,000             |
| Thereafter           | 295,000             |
| <b>TOTAL</b>         | <b>\$ 1,082,000</b> |

Rent expense under this operating lease for the year ended June 30, 2017 was \$196,000 and is included in occupancy expense.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

### 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, 2017, the Mission made \$27,000 in matching retirement contributions.

### NOTE 16 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2017:

|  |                                    |
|--|------------------------------------|
| Charitable Remainder Trusts -<br>Mission Operations        | \$ 330,000                         |
| Charitable Remainder Trust -<br>Hope Gardens Family Center | 35,000                             |
| Capital Campaign   | 9,303,000                          |
| Donor Restricted Contributions                             | <u>701,000</u>                     |
| <b><i>TEMPORARILY RESTRICTED<br/>NET ASSETS</i></b>        | <b><u><u>\$ 10,369,000</u></u></b> |

### 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, 2017:

|   |                                 |
|---|---------------------------------|
| Beneficial Interest in:<br>Perpetual Trust          | \$ 151,000                      |
| Pledge Receivable                                   | 110,000                         |
| Endowments  | <u>64,000</u>                   |
| <b><i>PERMANENTLY RESTRICTED<br/>NET ASSETS</i></b> | <b><u><u>\$ 324,000</u></u></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.

# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

### NOTE 18 - ENDOWMENTS (continued)

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.

|   | Permanently<br>Restricted | Temporarily<br>Restricted | Total            |
|---|---------------------------|---------------------------|------------------|
| <b>Endowment Net Asset Composition<br/>by Type of Fund at June 30, 2017</b> |                           |                           |                  |
| Donor-Restricted  | \$ 64,000                 | \$ -                      | \$ 64,000        |
| <b>Changes in Endowment Net Assets<br/>for the Year Ended June 30, 2017</b> |                           |                           |                  |
| Endowment Net Assets -  |                           |                           |                  |
| Beginning of Year   | \$ 64,000                 | \$ -                      | \$ 64,000        |
| Dividend  | -                         | 1,000                     | 1,000            |
| Unrealized Gains on Investment  | -                         | 7,000                     | 7,000            |
| <b><i>ENDOWMENT NET ASSETS -<br/>END OF YEAR</i></b>                        | <b>\$ 64,000</b>          | <b>\$ 8,000</b>           | <b>\$ 72,000</b> |

### 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, 2017, no expenses were charged to EIMAGO, Inc. As of June 30, 2017, 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 \$1,167,000 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, \$977,000 was allocated to fundraising expenses, and \$95,000 was allocated to both the shelter services and recovery program services, respectively.



# UNION RESCUE MISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

### NOTE 21 - THRIFT STORE

The thrift store has been in operation for 33 months. The following is a summary of results of its operations for the fiscal year ended June 30, 2017:

|                                  |    |                |
|----------------------------------|----|----------------|
| Gifts-in-Kind Revenue            | \$ | 561,000        |
| Sales Revenue                    |    | 561,000        |
| Miscellaneous Revenue            |    | <u>2,000</u>   |
| <b>TOTAL REVENUE</b>             |    | 1,124,000      |
| Gifts-In-Kind Cost of Goods Sold |    | 734,000        |
| Depreciation                     |    | 31,000         |
| Operating Expenses               |    | <u>527,000</u> |
| <b>NET LOSS ON OPERATIONS</b>    | \$ | <u>168,000</u> |