

MODESTO GOSPEL MISSION
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2014

MODESTO GOSPEL MISSION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Modesto Gospel Mission
Modesto, California

We have audited the accompanying financial statements of Modesto Gospel Mission (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As discussed in Note 8 to the financial statements, Modesto Gospel Mission did not maintain inventory prior to December 31, 2014. In our opinion, inventory should be maintained to conform to accounting principles generally accepted in the United States of America. It was not practicable to determine the effect of that departure on the statement of activities.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Modesto Gospel Mission as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Kemper CPA Group LLP

Kemper CPA Group LLP
Certified Public Accountants and Consultants

Modesto, California
December 15, 2016

MODESTO GOSPEL MISSION

STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2014

ASSETS

CURRENT ASSETS

| | |
|---------------------------|------------------|
| Cash and cash equivalents | \$ 525,811 |
| Receivables | 103 |
| Inventory | 128,150 |
| Investments | 908,878 |
| Total current assets | <u>1,562,942</u> |

PROPERTY AND EQUIPMENT

| | |
|-----------------------------------|--------------------|
| Buildings and improvements | 6,230,914 |
| Equipment | 504,805 |
| Subtotal | <u>6,735,719</u> |
| Accumulated depreciation | <u>(2,201,381)</u> |
| Total property and equipment, net | <u>4,534,338</u> |

OTHER ASSETS

| | |
|------------------|--------------|
| Prepaid expenses | <u>1,597</u> |
|------------------|--------------|

| | |
|--------------|----------------------------|
| TOTAL ASSETS | <u><u>\$ 6,098,877</u></u> |
|--------------|----------------------------|

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|---------------------------|----------------|
| Accounts payable | \$ 78,538 |
| Accrued liabilities | 31,338 |
| Total current liabilities | <u>109,876</u> |

LONG-TERM LIABILITIES

| | |
|-----------------------------|----------------|
| Notes payable | 300,000 |
| Total long-term liabilities | <u>300,000</u> |

| | |
|-------------------|----------------|
| TOTAL LIABILITIES | <u>409,876</u> |
|-------------------|----------------|

NET ASSETS

| | |
|-------------------------|------------------|
| Unrestricted net assets | 5,619,588 |
| Temporary restricted | 69,413 |
| Total net assets | <u>5,689,001</u> |

| | |
|----------------------------------|----------------------------|
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 6,098,877</u></u> |
|----------------------------------|----------------------------|

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

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

| | Unrestricted | Temporarily Restricted | Total |
|---|--------------|---------------------------|--------------|
| SUPPORT AND REVENUE | | | |
| PUBLIC SUPPORT | | | |
| Contributions | \$ 2,013,714 | \$ 199,738 | \$ 2,213,452 |
| Gifts in kind | 2,535,459 | - | 2,535,459 |
| Total contributions | 4,549,173 | 199,738 | 4,748,911 |
| Program income | 33,828 | - | 33,828 |
| Special events | 56,645 | - | 56,645 |
| Total public support | 4,639,646 | 199,738 | 4,839,384 |
| OTHER REVENUE | | | |
| Interest and dividend income | 16,112 | - | 16,112 |
| Realized and unrealized loss on investments | (2,248) | - | (2,248) |
| Miscellaneous | 49,662 | - | 49,662 |
| Total other revenue | 63,526 | - | 63,526 |
| RESTRICTIONS | 130,325 | (130,325) | - |
| TOTAL SUPPORT AND REVENUE | 4,833,497 | 69,413 | 4,902,910 |
| EXPENSES | | | |
| Program services | 4,318,054 | - | 4,318,054 |
| Support services | | | |
| Fundraising, less direct special events expense | 602,707 | - | 602,707 |
| Special events | 38,907 | - | 38,907 |
| Management and general | 408,093 | - | 408,093 |
| Total support services | 1,049,707 | - | 1,049,707 |
| TOTAL EXPENSES | 5,367,761 | - | 5,367,761 |
| CHANGE IN NET ASSETS | (534,264) | 69,413 | (464,851) |
| NET ASSETS: Beginning of the year | 6,153,852 | - | 6,153,852 |
| End of the year | \$ 5,619,588 | \$ 69,413 | \$ 5,689,001 |

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

MODESTO GOSPEL MISSION**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

| | Program Services | Support Services | | Total |
|---|---------------------|-------------------|----------------|------------------|
| | | Mgmt & General | Fundraising | |
| SALARIES AND RELATED EXPENSES | | | | |
| Payroll | \$1,058,444 | \$ 132,304 | \$ 132,305 | \$ 1,323,053 |
| Payroll taxes | 74,992 | 7,316 | 9,146 | 91,454 |
| Employee benefits expenses | 126,398 | 19,200 | 14,400 | 159,998 |
| | <u>1,259,834</u> | <u>158,820</u> | <u>155,851</u> | <u>1,574,505</u> |
| OTHER EXPENSES | | | | |
| Grants and other assistance to individuals | 2,407,309 | - | - | 2,407,309 |
| Development | - | - | 354,505 | 354,505 |
| Accounting services | - | 3,587 | - | 3,587 |
| Outsides services | 6,357 | 2,991 | - | 9,348 |
| Professional services | - | 63,631 | - | 63,631 |
| Training and conferences | 20,407 | 7,730 | 2,783 | 30,920 |
| Advertising | - | - | 32,121 | 32,121 |
| Bank service charges | - | 1,497 | - | 1,497 |
| Publications and subscriptions | - | 188 | - | 188 |
| Dues | 5,089 | 405 | 289 | 5,783 |
| Fees | - | - | 9,682 | 9,682 |
| Software maintenance renewal | 8,199 | - | - | 8,199 |
| Equipment and facilities rental | 4,882 | - | 6,702 | 11,584 |
| Food | 20,640 | - | - | 20,640 |
| Entertainment | - | - | 9,620 | 9,620 |
| Printing and mailing | - | - | 10,385 | 10,385 |
| Gas, oil, tires | 19,967 | 202 | - | 20,169 |
| Gifts and donations | 2,576 | 604 | 845 | 4,025 |
| Housing | 18,135 | 40,365 | - | 58,500 |
| Insurance | 33,391 | 33,391 | 34,703 | 101,485 |
| Interest Expense | - | 9,347 | - | 9,347 |
| Office supplies | 19,635 | 19,635 | 1,636 | 40,906 |
| Computer supplies | 3,759 | 3,759 | 2,374 | 9,892 |
| Program and educational supplies | 81,890 | - | - | 81,890 |
| Repairs and maintenance buildings | 60,877 | - | - | 60,877 |
| Repairs and maintenance vehicles | 5,417 | - | - | 5,417 |

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

MODESTO GOSPEL MISSION**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

| | Program Services | Support Services | | Total |
|-----------------------------------|---------------------|-------------------|-------------------|---------------------|
| | | Mgmt & General | Fundraising | |
| Security | 2,065 | - | 1,300 | 3,365 |
| Uniforms | 4,719 | - | - | 4,719 |
| Supplies | 46,323 | - | 3,819 | 50,142 |
| Medical supplies | 2,372 | - | - | 2,372 |
| Tax and license vehicle | 1,240 | - | - | 1,240 |
| Tax - real estate | 10,988 | 1,221 | - | 12,209 |
| Meals - meetings and conferences | 1,106 | 617 | 404 | 2,127 |
| Travel - meetings and conferences | 491 | 371 | 335 | 1,197 |
| Communications | 13,841 | 13,841 | 14,260 | 41,942 |
| Refund | 12,162 | - | - | 12,162 |
| Utility | 109,473 | 12,164 | - | 121,637 |
| Depreciation expense | 134,910 | 33,727 | - | 168,637 |
| Total other expenses | 3,058,220 | 249,273 | 485,763 | 3,793,256 |
| Total Expenses | \$4,318,054 | \$ 408,093 | \$ 641,614 | \$ 5,367,761 |

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

MODESTO GOSPEL MISSION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2014

| CASH FLOWS FROM OPERATING ACTIVITIES | |
|---|-------------------|
| Change in net assets | \$ (464,851) |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | |
| Depreciation | 168,637 |
| Realized and unrealized loss on investments | 2,248 |
| (Increase) decrease in assets: | |
| Receivables | (103) |
| Prepaid expenses | 13,735 |
| Inventory | (128,150) |
| Increase (decrease) in liabilities: | |
| Accounts payable | 48,099 |
| Accrued liabilities | 23,664 |
| Net cash used by operating activities | <u>(336,721)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of investments | (14,334) |
| Proceeds from sale of investments | 533,366 |
| Purchase of fixed assets | <u>(469,893)</u> |
| Net cash provided by investing activities | <u>49,139</u> |
| Decrease in cash and cash equivalents | (287,582) |
| CASH AND CASH EQUIVALENTS | |
| Beginning of year | <u>813,393</u> |
| End of year | <u>\$ 525,811</u> |
| SUPPLEMENTAL DISCLOSURES | |
| Cash paid for interest | \$ 9,347 |
| Acquisition of fixed assets: | |
| Cost of fixed assets | \$ 769,893 |
| Loan | <u>(300,000)</u> |
| Cash paid for fixed assets | <u>\$ 469,893</u> |

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

MODESTO GOSPEL MISSION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Modesto Gospel Mission (the “Organization”), is a nonprofit, nondenominational Christian organization that has been serving the hungry and the homeless of Stanislaus County since 1948. John Haine, Modesto Gospel Mission's founder saw a need and addressed it by simply helping the homeless on the streets. Inspired by this example, others came to lend a hand, and with help of individuals, churches, businesses, and volunteers, the outreach grew. In 1984 Modesto Gospel Mission moved to its current location on Yosemite Boulevard in the airport neighborhood. A major expansion and renovation was completed in 1997, with the Mission campus now encompassing two city blocks.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual method of accounting in conformity with accounting principles generally accepted in the United States of America.

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2014, the Organization had no permanently restricted net assets.

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions and are related to the operation and management of the Organization’s primary programs and supporting services.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents

For purposes of the statement of financial position and the statement of cash flows, cash and cash equivalents consist of cash, certificates of deposits with banks and other highly liquid resources, such as investments in money market funds, with an original maturity of three months or less.

MODESTO GOSPEL MISSION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2014

Inventory

The Organization accepts contributions of clothing, food, and household items to be used in activities in running the Mission. These contributed items are recorded at their fair value at the date of receipt and are reflected as inventory in the Statement of Financial Position. Inventories are used as needed.

Investments

The Organization carries investments in certificates of deposit at their fair values based on quoted prices in active markets for similar assets (Level 2 measurements) in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Property and Equipment

Property and equipment are recorded at cost if purchased and at fair value if acquired by donation. The Organization generally capitalizes fixed assets with a cost greater than \$2,500 and a life expectancy of more than one year. All expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from 5 to 40 years.

Revenue Recognition

Funds are provided to the Organization by contributions from the public and fund-raising activities of the Organization. Contributions received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase the respective class of net assets. The Organization recognizes fees charged for program services (i.e. transitional housing), as increases in unrestricted net assets in the period in which the service has been provided. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law.

Donated Services, Facilities and Equipment

When the Organization receives significant amounts of donated services, facilities or equipment, they are recorded as contributions based on the estimated fair value at the date the contribution is made. Donated services are recorded as contributions at the estimated fair value only in those instances where the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation. The Organization receives services from a large number of volunteers who give significant amounts of their time to the Organization's programs and fund-raising campaigns but which do not meet the criteria for financial statement recognition. Medical and other services provided by various professionals and companies in Stanislaus County for the year ended December 31, 2014 amounted to \$81,579. Donated goods for the year ended December 31, 2014 amounted to \$2,453,880.

MODESTO GOSPEL MISSION

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in these financial statements. Expenses have been allocated by function between program and supporting services classifications on the basis of cost allocations using actual time worked in each program and on estimates made by the Organization's management.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Uses of estimates include, but are not limited to, depreciation, and donated facility use and other items.

Income Taxes

The Organization is exempt from income taxes under IRS Code Section 501(c) (3) and California Revenue and Taxation Code Section 23701(d). The Organization is classified by the Internal Revenue Service as other than-a private foundation. Accordingly, no provision for federal or state income taxes is made in the accompanying financial statements.

The Organization files information tax returns in the U.S. Federal and California jurisdictions. The Organization's information returns filed with the Internal Revenue Service and the State of California are subject to examination, generally for three and four years respectively after they are filed.

Date of Managements Review

Management has evaluated subsequent events through December 15, 2016, the date which the financial statements were available to be issued.

2. INVENTORY

Inventories are comprised of the following as of December 31, 2014:

| | |
|------------------|------------|
| Food | \$ 50,953 |
| Clothing | 64,644 |
| Medical supplies | 9,107 |
| Miscellaneous | 3,446 |
| | <hr/> |
| | \$ 128,150 |
| | <hr/> |

MODESTO GOSPEL MISSION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2014

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including the assumptions about risk).

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

Following is a description of the valuation methodologies used for assets measured at fair value.

Certificates of Deposit held by a broker – values are calculated using quoted market prices for similar assets in active markets.

MODESTO GOSPEL MISSION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2014

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 2014:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------------|----------------|-------------------|----------------|-------------------|
| Certificates of deposit with broker | \$ - | \$ 908,878 | \$ - | \$ 908,878 |
| Total assets at fair value | <u>\$ -</u> | <u>\$ 908,878</u> | <u>\$ -</u> | <u>\$ 908,878</u> |

The following schedule summarizes the investment return in the statement of activities:

| | |
|-----------------------------------|------------------|
| Interest income | \$ 14,334 |
| Net realized and unrealized gains | <u>(2,248)</u> |
| Total | <u>\$ 12,086</u> |

4. NOTE PAYABLE

The note payable is due to an unrelated third party. The note bears interest at a fixed rate of 6% and is payable in monthly, interest only installments of \$1,500, with an anticipated balloon payment of \$300,000 due on June 1, 2019. The loan is secured by a deed of trust on the building.

5. OPERATING LEASES

The Modesto Gospel Mission leases two copy machines and a postage meter under five year operating leases expiring in 2019.

Future minimum annual rental payments on all non-cancelable operating leases are as follows for the year ended December 31:

| | |
|-------|------------------|
| 2015 | \$ 4,713 |
| 2016 | 4,713 |
| 2017 | 4,713 |
| 2018 | 4,713 |
| 2019 | <u>1,178</u> |
| Total | <u>\$ 20,030</u> |

Rental expense for the year ended December 31, 2014, was \$4,882.

MODESTO GOSPEL MISSION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2014

6. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of cash and cash equivalents and investments.

The Organization maintains its cash and cash equivalents in bank deposit accounts with the Federal Deposit Insurance Corporation (FDIC) insured limits. The FDIC is an independent agency of the U.S. government. FDIC insurance covers up to \$250,000 (including principal and interest) for deposits held in different ownership categories, including single accounts, joint accounts, trust accounts, IRAs, and certain other retirement accounts, per issuer. At December 31, 2014, the Organization did not have funds over the insured limits.

The Organization maintains an account with a stock brokerage firm. The account contains certificates of deposit, considered cash alternatives. Certificates of deposit purchased through a securities broker and held in a brokerage account are considered deposits with the issuing institution and are insured by the Federal Deposit Insurance Company. At December 31, 2014, the Organization had no certificates of deposit with the broker over the insured limits.

7. TEMPORARILY RESTRICTED NET ASSETS

The Organization's temporarily restricted net assets at December 31, 2014 consists of the following:

| | |
|------------------------------|------------------|
| Children's Center | \$ 50,268 |
| Women & Children's Building | 15,979 |
| Education | 3,166 |
| Total temporarily restricted | <u>\$ 69,413</u> |

8. BASIS FOR QUALIFIED OPINION

As part of its mission, the Organization, provides meals, clothing and other essential items to those in need, many of these items have been donated to the Organization. Generally Accepted Accounting Principles requires the fair value of donated items be recognized as revenue when received and recorded as inventory then removed from inventory to an expense as the items are used. The Organization has elected to value the gifts in-kind donations at the point in time they are received, recording both contribution income and grants to individuals' expense in the same year.

In 2014, the Organization adjusted the grants to individuals' expense to reflect the inventory on hand at December 31, 2014. Therefore the Statement of Financial Position reflects the inventory on hand as of December 31, 2014, however, the Statement of Activities does not reflect the actual inventory used during the year as the inventory at the beginning of the year could not be determined.

MODESTO GOSPEL MISSION

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

9. GOING CONCERN AND MANAGEMENT PLANS

In fiscal year 2014, the Organization experienced a total decrease in net assets of \$464,851. This decrease has reduced the accumulated net assets at December 31, 2014 to \$5,689,001. As of that date, the Organization's net fixed assets accounted for \$4,534,338. In addition, the Organization has had three consecutive years of decrease in net assets for a total decrease in three years of \$927,358. Those factors, create an uncertainty about the Organization's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Organization is unable to continue.

Management's plans to reduce the annual short fall include delaying medical building improvements/expenditures and women and children's projects, implementing a hiring freeze, and pursuing new funding sources. Management projects that all cash needs will be met through 2015.