

MODESTO GOSPEL MISSION

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

FOR THE SIX MONTHS ENDED
JUNE 30, 2016

MODESTO GOSPEL MISSION

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5-6
Statement of cash flows	7
NOTES TO THE FINANCIAL STATEMENTS	8-12



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 June 30, 2016, and the related statements of activities, functional expenses and cash flows for the six months 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 in the first paragraph present fairly, in all material respects, the financial position of Modesto Gospel Mission as of June 30, 2016, and the results of its operations and its cash flows for the six months 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
June 21, 2017

MODESTO GOSPEL MISSION

STATEMENT OF FINANCIAL POSITION JUNE 30, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 185,404
Inventory	<u>49,995</u>
Total current assets	235,399

PROPERTY AND EQUIPMENT

Buildings and improvements	6,353,645
Equipment	<u>605,248</u>
Subtotal	6,958,893
Accumulated depreciation	<u>(2,463,626)</u>
Total property and equipment, net	4,495,267

OTHER ASSETS

Prepaid expenses	<u>69,602</u>
Total other assets	<u>69,602</u>

TOTAL ASSETS

\$ 4,800,268

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 74,291
Accrued liabilities	<u>42,705</u>
Total current liabilities	116,996

LONG TERM LIABILITIES

Note payable	<u>300,000</u>
Total long term liabilities	<u>300,000</u>

TOTAL LIABILITIES

416,996

NET ASSETS

Unrestricted net assets	4,225,232
Temporary restricted	<u>158,040</u>
Total net assets	<u>4,383,272</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 4,800,268

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

MODESTO GOSPEL MISSION**STATEMENT OF ACTIVITIES
FOR THE SIX MONTHS ENDED JUNE 30, 2016**

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
PUBLIC SUPPORT			
Contributions	\$ 709,232	\$ 52,327	\$ 761,559
Gifts in kind	1,289,209	-	1,289,209
Total contributions	1,998,441	52,327	2,050,768
Program income	6,504	-	6,504
Special events	98,325	-	98,325
Total public support	2,103,270	52,327	2,155,597
OTHER REVENUE (EXPENSE)			
Interest and dividend income	2,099	-	2,099
Realized and unrealized loss on investments	(98)	-	(98)
Miscellaneous	59,570	-	59,570
Total other revenue	61,571	-	61,571
NET ASSETS RELEASED FROM RESTRICTION	20,709	(20,709)	-
TOTAL SUPPORT AND REVENUE	2,185,550	31,618	2,217,168
EXPENSES			
Program services	2,219,767	-	2,219,767
Support services			
Fundraising, less direct special events expense	284,514	-	284,514
Special events	23,318	-	23,318
Management and general	271,007	-	271,007
Total support services	578,839	-	578,839
TOTAL EXPENSES	2,798,606	-	2,798,606
CHANGE IN NET ASSETS	(613,056)	31,618	(581,438)
NET ASSETS			
Beginning of the period	4,838,288	126,422	4,964,710
End of the period	\$ 4,225,232	\$ 158,040	\$ 4,383,272

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

MODESTO GOSPEL MISSION**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SIX MONTHS ENDED JUNE 30, 2016**

	Program Services	Support Services		Total
		Mgmt & General	Fundraising	
SALARIES AND RELATED EXPENSES				
Payroll	\$ 512,460	\$ 103,538	\$ 83,782	\$ 699,780
Payroll taxes	38,236	4,174	6,403	48,813
Employee benefits	15,457	50,907	1,525	67,889
Total salaries and related expenses	566,153	158,619	91,710	816,482
OTHER EXPENSES				
Grants and other assistance to individuals	1,357,279	-	-	1,357,279
Development	-	-	148,781	148,781
Accounting services	-	9,542	-	9,542
Outsides services	104	6,356	58	6,518
Professional services	4,050	6,828	-	10,878
Training and conferences	726	7,018	200	7,944
Advertisement	-	222	14,551	14,773
Bank service charges	75	367	75	517
Publications and subscriptions	80	295	657	1,032
Dues	3,904	4,005	-	7,909
Fees	3,157	2,956	1,804	7,917
Software maintenance renewal	5,613	3,425	309	9,347
Equipment rental	1,504	860	761	3,125
Facility and event rental	-	-	13,572	13,572
Food	5,840	391	4,865	11,096
Gas, oil, tires	3,854	616	973	5,443
Gifts and donations	-	-	1,798	1,798
Insurance	60,563	24,955	3,043	88,561
Interest expense	9,000	-	-	9,000
Office supplies	1,200	2,613	14,334	18,147
Decorations	-	-	1,060	1,060
Sponsorship promotion	-	-	154	154
Auction expenses	-	-	2,840	2,840
Computer supplies	-	-	86	86
Program supplies	11,515	-	-	11,515

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

MODESTO GOSPEL MISSION**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SIX MONTHS ENDED JUNE 30, 2016**

	Program Services	Support Services		Total
		Mgmt & General	Fundraising	
Special event supplies	-	-	1,263	1,263
Donor gifts	-	-	2,362	2,362
Repairs and maintenance buildings	8,048	1,538	-	9,586
Repairs and maintenance vehicles	978	-	-	978
Repairs and maintenance equipment	6,623	-	-	6,623
Security	356	-	-	356
Uniforms	635	-	-	635
Supplies	19,309	-	1,982	21,291
Medical supplies	275	-	-	275
Bad debts	1,264	1,120	-	2,384
Tax and license vehicle	967	-	-	967
Meals - meetings and conferences	-	1,626	92	1,718
Travel - meetings and conferences	24	4,130	502	4,656
Communications	18,254	5,807	-	24,061
Utility	57,560	9,386	-	66,946
Community outreach and meals	1,398	967	-	2,365
Depreciation expense	69,459	17,365	-	86,824
Total other expenses	<u>1,653,614</u>	<u>112,388</u>	<u>216,122</u>	<u>1,982,124</u>
Total Expenses	<u><u>\$ 2,219,767</u></u>	<u><u>\$ 271,007</u></u>	<u><u>\$ 307,832</u></u>	<u><u>\$ 2,798,606</u></u>

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

MODESTO GOSPEL MISSION

STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (581,438)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	86,824
Realized and unrealized loss on investments	98
(Increase) decrease in assets:	
Receivables	(61,990)
Inventory	68,070
Prepaid expenses	2,480
Increase (decrease) in liabilities:	
Accounts payable	(47,843)
Accrued liabilities	26,469
Net cash used by operating activities	<u>(507,330)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(2,080)
Proceeds from sale of investments	255,894
Purchase of fixed assets	<u>(38,837)</u>
Net cash provided by operating activities	<u>214,977</u>
Decrease in cash and cash equivalents	(292,353)
CASH AND CASH EQUIVALENTS	
Beginning of period	<u>477,757</u>
End of period	<u>\$ 185,404</u>
SUPPLEMENTAL DISCLOSURES	
Cash paid for interest	<u>\$ 9,000</u>

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

MODESTO GOSPEL MISSION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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 June 30, 2016, 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

JUNE 30, 2016

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 equity securities and certificates of deposit with readily determinable fair values at their fair values based on quoted prices in active markets (all Level 1 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 six months ended June 30, 2016 amounted to \$13,038. Donated goods for the six months ended June 30, 2016 amounted to \$1,276,171.

MODESTO GOSPEL MISSION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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 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.

Fiscal Year Change

The Board approved a change of the Organization's fiscal year from December 31 to June 30 beginning with the period ended June 30, 2016. Therefore, these financial statements represent the results of operations for the six month period from January 1, 2016 through June 30, 2016. Subsequent to this initial reporting period, the financial statements will report a twelve month period from July 1 through June 30.

Date of Managements Review

Management has evaluated subsequent events through June 21, 2017, the date which the financial statements were available to be issued.

2. INVENTORY

Inventories are comprised of the following as of June 30, 2016:

Food	\$ 41,638
Clothing	8,357
	<u>\$ 49,995</u>

MODESTO GOSPEL MISSION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

3. 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.

4. 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 June 30:

2017	\$ 4,713
2018	4,713
2019	<u>1,178</u>
Total	<u>\$ 10,604</u>

Total rental expense for the six months ended June 30, 2016, was \$3,125.

5. CONCENTRATION OF CREDIT RISK

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

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 June 30, 2016, the Organization had no cash and cash equivalents over the insured limits.

6. TEMPORARILY RESTRICTED NET ASSETS

The Organization's temporarily restricted net assets at June 30, 2016 consists of the following:

Children's Center	\$ 28,476
Women & Children's Building	<u>129,564</u>
Total temporarily restricted	<u>\$ 158,040</u>

MODESTO GOSPEL MISSION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

7. GOING CONCERN AND MANAGEMENT PLANS

In the six months ended June 30, 2016, the Organization experienced a total decrease in net assets of \$581,438. This decrease has reduced the accumulated net assets at June 30, 2016 to \$4,383,272. As of that date, the Organization's net fixed assets accounted for \$4,495,267. In addition, the Organization has had a decrease in net assets of \$1,770,580 over the last thirty months. 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, women and children's projects, implementing a hiring freeze, and pursuing new funding sources. Management projects that all cash needs will be met through 2016-2017.