

MODESTO GOSPEL MISSION

FINANCIAL STATEMENTS

**YEARS ENDED
JUNE 30, 2019 AND 2018**



ATHERTON
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INDEPENDENT AUDITOR'S REPORT

October 14, 2019

Board of Directors
Modesto Gospel Mission
Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of Modesto Gospel Mission, which comprise the statements of financial position as of June 30, 2019 and 2018, the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 reasonable 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 Modesto Gospel Mission as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Atherton & Associates, LLP

MODESTO GOSPEL MISSION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

ASSETS

CURRENT ASSETS	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 895,187	\$ 616,565
Accounts receivable	12,073	6,828
Inventory	135,274	115,086
Prepays	31,947	8,769
Total current assets	<u>1,074,481</u>	<u>747,248</u>
PROPERTY, PLANT, AND EQUIPMENT, net	<u>4,086,054</u>	<u>4,214,223</u>
NONCURRENT ASSETS, Note receivable	<u>150,000</u>	<u>150,000</u>
TOTAL ASSETS	<u><u>\$ 5,310,535</u></u>	<u><u>\$ 5,111,471</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 65,817	\$ 53,716
Accrued payroll and payroll taxes	9,750	8,352
Unearned revenue	80,617	36,446
Rent deposits	11,700	17,100
Accrued vacation	40,382	28,975
Note payable, current portion	5,314	52,980
Total current liabilities	<u>213,580</u>	<u>197,569</u>
NONCURRENT LIABILITIES, Note payable, net of current portion	<u>242,043</u>	<u>247,020</u>
NET ASSETS		
Net assets without donor restrictions	4,593,348	4,455,939
Net assets with donor restrictions	<u>261,564</u>	<u>210,943</u>
Total net assets	<u>4,854,912</u>	<u>4,666,882</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,310,535</u></u>	<u><u>\$ 5,111,471</u></u>

MODESTO GOSPEL MISSION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT			
Contributions	\$ 2,006,503	\$ 79,977	\$ 2,086,480
Event revenue, net of expenses of \$18,856	53,306	-	53,306
Grants	55,829	-	55,829
Donations-in-kind and contributed services	4,217,312	-	4,217,312
	<u>6,332,950</u>	<u>79,977</u>	<u>6,412,927</u>
OTHER REVENUE			
Interest income	8,775	-	8,775
Rental income	191,961	-	191,961
Gain on sale of building	-	-	-
Other revenue	31,406	-	31,406
	<u>232,142</u>	<u>-</u>	<u>232,142</u>
RECLASSIFICATIONS			
Net assets released from restrictions	29,356	(29,356)	-
	<u>6,594,448</u>	<u>50,621</u>	<u>6,645,069</u>
EXPENSES			
Program services	5,840,523	-	5,840,523
General and administrative	293,362	-	293,362
Fundraising	323,154	-	323,154
	<u>6,457,039</u>	<u>-</u>	<u>6,457,039</u>
Total change in net assets	137,409	50,621	188,030
NET ASSETS AT BEGINNING OF YEAR	<u>4,455,939</u>	<u>210,943</u>	<u>4,666,882</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,593,348</u>	<u>\$ 261,564</u>	<u>\$ 4,854,912</u>

MODESTO GOSPEL MISSION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT			
Contributions	\$ 2,012,815	\$ 90,213	\$ 2,103,028
Event revenue, net of expenses of \$52,855	61,668	-	61,668
Grants	13,554	-	13,554
Donations-in-kind and contributed services	3,571,442	-	3,571,442
	<u>5,659,479</u>	<u>90,213</u>	<u>5,749,692</u>
OTHER REVENUE			
Interest income	3,185	-	3,185
Rental income	113,856	-	113,856
Gain on sale of building	120,496	-	120,496
Other revenue	32,169	-	32,169
	<u>269,706</u>	<u>-</u>	<u>269,706</u>
RECLASSIFICATIONS			
Net assets released from restrictions	37,626	(37,626)	-
	<u>5,966,811</u>	<u>52,587</u>	<u>6,019,398</u>
EXPENSES			
Program services	4,938,198	-	4,938,198
General and administrative	303,871	-	303,871
Fundraising	229,104	-	229,104
	<u>5,471,173</u>	<u>-</u>	<u>5,471,173</u>
Total change in net assets	495,638	52,587	548,225
NET ASSETS AT BEGINNING OF YEAR	<u>3,960,301</u>	<u>158,356</u>	<u>4,118,657</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,455,939</u>	<u>\$ 210,943</u>	<u>\$ 4,666,882</u>

MODESTO GOSPEL MISSION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services	Supporting Services		Total Expenses
		General and Administrative	Fund Raising	
Payroll	\$ 894,456	\$ 152,011	\$ 147,375	\$ 1,193,842
Payroll taxes	65,111	9,572	11,062	85,745
Employee benefits	44,970	9,989	5,315	60,274
	<u>1,004,537</u>	<u>171,572</u>	<u>163,752</u>	<u>1,339,861</u>
Advertising and development	-	4,150	95,041	99,191
Bank and merchant charges	7,400	3,593	416	11,409
Clinic	59,872	-	-	59,872
Clothing	2,979,489	-	-	2,979,489
Depreciation	174,005	7,015	-	181,020
Dues and subscriptions	1,342	5,500	13,444	20,286
Food	915,752	481	608	916,841
Gas and mileage	16,159	-	63	16,222
Insurance	89,867	12,034	5,494	107,395
Interest expense	-	13,665	-	13,665
Miscellaneous	1,685	2,092	3,124	6,901
Professional fees	14,515	25,386	13,912	53,813
Program expenses	17,652	-	-	17,652
Rent	35,714	578	3,933	40,225
Repairs and maintenance	56,736	6,691	2,811	66,238
Supplies	268,104	3,467	11,316	282,887
Taxes	18,316	4,566	865	23,747
Training and travel	15,217	4,833	-	20,050
Utilities	164,161	27,739	8,375	200,275
	<u>164,161</u>	<u>27,739</u>	<u>8,375</u>	<u>200,275</u>
TOTAL EXPENSES	<u><u>\$ 5,840,523</u></u>	<u><u>\$ 293,362</u></u>	<u><u>\$ 323,154</u></u>	<u><u>\$ 6,457,039</u></u>

MODESTO GOSPEL MISSION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services	Supporting Services		Total Expenses
		General and Administrative	Fund Raising	
Payroll	\$ 768,916	\$ 161,845	\$ 90,191	\$ 1,020,952
Payroll taxes	59,521	10,470	7,914	77,905
Employee benefits	56,573	10,257	6,624	73,454
Total salaries and related expenses	885,010	182,572	104,729	1,172,311
Advertising and development	-	2,174	67,892	70,066
Bank and merchant charges	95	3,640	17	3,752
Clinic	90,532	-	-	90,532
Clothing	2,081,645	-	-	2,081,645
Depreciation	170,211	6,862	-	177,073
Dues and subscriptions	1,376	4,789	14,615	20,780
Food	1,160,510	370	91	1,160,971
Gas and mileage	11,637	155	71	11,863
Insurance	73,328	16,740	6,008	96,076
Interest expense	-	18,000	-	18,000
Miscellaneous	-	-	3,648	3,648
Professional fees	3,487	19,037	281	22,805
Program expenses	17,303	-	-	17,303
Rent	26,801	-	4,423	31,224
Repairs and maintenance	48,448	7,178	2,155	57,781
Supplies	190,318	3,287	15,957	209,562
Taxes	12,828	3,352	-	16,180
Training and travel	4,825	3,583	520	8,928
Utilities	159,844	32,132	8,697	200,673
TOTAL EXPENSES	\$ 4,938,198	\$ 303,871	\$ 229,104	\$ 5,471,173

MODESTO GOSPEL MISSION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 188,030	\$ 548,225
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:		
Donated property, plant and equipment	-	(43,660)
Donated inventory	(20,188)	(23,091)
Depreciation	181,020	177,073
Gain on sale of building	-	(120,496)
(Increase) decrease in operating assets:		
Accounts receivable	(5,245)	(1,332)
Prepays	(23,178)	10,002
Increase (decrease) in operating liabilities:		
Accounts payable	12,101	(104,407)
Accrued payroll and payroll taxes	1,398	(447)
Unearned revenue	44,171	36,446
Rent deposits	(5,400)	17,100
Accrued vacation	11,407	(13,214)
Net cash provided by operating activities	<u>384,116</u>	<u>482,199</u>
INVESTING ACTIVITIES		
Proceeds from sale of building	-	25,000
Purchases of property, plant and equipment	<u>(52,851)</u>	<u>(21,211)</u>
Net cash provided (consumed) by investing activities	<u>(52,851)</u>	<u>3,789</u>
FINANCING		
Payments made on notes payable	<u>(52,643)</u>	<u>-</u>
Net cash consumed by financing activities	<u>(52,643)</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	278,622	485,988
Cash and cash equivalents at beginning of year	<u>616,565</u>	<u>130,577</u>
Cash and cash equivalents at end of year	<u>\$ 895,187</u>	<u>\$ 616,565</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for:		
Interest	\$ 13,665	\$ 18,000
Noncash transaction:		
Sale of building financed with a note receivable	-	150,000

NOTES TO FINANCIAL STATEMENTS

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1 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 the 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 Accounting and Presentation The Organization’s financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- a) Net assets without donor restrictions - net assets that are not subject to donor imposed stipulations.
- b) Net assets with donor restrictions - net assets subject to donor imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. When a restriction is satisfied or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash and Cash Equivalents The Organization considers cash held in interest and noninterest bearing accounts and money market funds to be cash and cash equivalents.

Inventory The Organization accepts contributions of clothing, food, and household items to be used in activities in running the Organization. These contributed items are recorded at their fair value at the date of receipt.

Property, Plant, and Equipment Property, plant, and equipment purchases are recorded at cost and donated property and equipment are recorded at estimated fair market value on the date contributed to the Organization. The cost of property, plant and equipment purchases in excess of \$1,000 is capitalized. Maintenance and repairs that do not extend the useful life of the respective assets are expensed as incurred. Depreciation is provided on the straight-line methods over the estimated useful lives of the assets of three to forty-five years.

Impairment of Long-Lived Assets On an ongoing basis, the Organization reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Organization recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of June 30, 2019 and 2018, management believes that no impairments exist.

Unearned Revenue Unearned revenue represents advanced payments for grants that are recognized as exchange transactions.

Rent Deposits The Organization provides a New Life Program to assist participants in attaining sobriety. Once a participant graduates from the program, participants have the opportunity to rent living space from the Organization. During their rent tenure, the participant can earn up to a 75% rent credit against their monthly payment for a maximum of \$1,800, which is refunded to the participant upon moving out. As of June 30, 2019 and 2018, refundable rent credits amounted to \$11,700 and \$17,100, respectively.

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1 Summary of Significant Accounting Policies (Continued)

Revenue Recognition and Contributions The Organization recognizes contributions as income when received or when money has been pledged for the Organization. Accounting principles generally accepted in the United States of America require non-profit organizations to record promises to give during the period in which the promise is made. Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Non-cash gifts are reported as support at the estimated fair market value on the date of the gift. Goods given to the Organization that do not have an objective basis for valuation are not recorded. Revenue is primarily derived from contributions of cash. The Organization records contributions received as net assets without donor restrictions or net assets with donor restrictions depending on the existence or nature of any donor restriction. The Organization's grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred.

Donated Capital Assets, Services, Facilities, and Supplies Donations of capital assets, services, facilities, and supplies are recognized as contributions in accordance with Revenue Recognition Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased if not provided by donation. Donated services are recognized at fair market value for the related period. The Organization also receives services from a large number of volunteers who give significant amounts of their time to the Organization's programs and fund-raising campaigns. Amounts were not recognized in the accompanying statement of activities and changes in net assets because the criteria for recognition of such volunteer effort under the Revenue Recognition Topic of the FASB ASC were not satisfied.

Functional Allocation of Expenses The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and changes in net assets and detailed in the statements of functional expenses. The majority of expenses were directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses have been allocated among the programs and supporting services benefited based on percentage of time spent by each employee on the activity or other basis determined by the Organization's management.

Beneficial Interest in Charitable Trust The Organization is the primary beneficiary in a charitable trust. The assets in the trust were valued at \$1,983,070 and \$1,868,245 as of June 30, 2019 and 2018, respectively. The allocation of the income to the beneficiary is at the Trustee's discretion. For both years ended June 30, 2019 and 2018, the income received by the Organization from the trust was \$120,000.

Advertising Advertising is expensed as incurred. Total advertising expense for the years ended June 30, 2019 and 2018 was \$4,246 and \$6,068, respectively.

Income Taxes The Organization is a not for profit corporation and is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

Management has evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for the tax years ending June 30, 2015 and before.

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1 Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities and changes in net assets. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact the pending adoption of the new standard will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions” and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization has adopted this amendment as of June 30, 2019 and retrospectively adjusted the financial statements as of June 30, 2018.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the existing accounting standards for revenue recognition. In July 2015, FASB voted to defer the effective date of ASU 2014-09 for one year. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to its customers. ASU 2014-09 will be effective for the Organization beginning in the year ended December 31, 2019, though early adoption is permitted. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Organization is currently evaluating the impact of adopting the new revenue standard on its financial statements.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework – Changes to the Fair Value Disclosure Requirements for Fair Value Measurement* to modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. These amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The adoption of the ASU is not expected to have a material impact on the financial statements.

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.

Fair Value of Financial Instruments The carrying amounts of financial instruments, including cash, receivables, accounts payable, accrued expenses and current maturities of long-term obligations, approximate fair value.

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1 Summary of Significant Accounting Policies (Continued)

Subsequent Events In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 14, 2019, the date the financial statements were available to be issued.

Note 2 Concentration of Credit Risk

The Organization maintains cash balances at various financial institutions, which at times may exceed federally insured limits. At June 30, 2019, there was \$586,375 of uninsured cash and cash equivalents.

Note 3 Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2019:

Cash and cash equivalents	\$895,187
Accounts receivable	<u>12,073</u>
	907,260
Less net assets with donor restrictions	<u>261,564</u>
	<u>\$645,696</u>

Note 4 Inventory

Inventory consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
Clothing	\$ 22,665	\$ 37,201
Food	60,000	66,276
Medical supplies	11,608	11,609
Miscellaneous	<u>41,001</u>	<u>-</u>
	<u>\$135,274</u>	<u>\$115,086</u>

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 5 Property, Plant, and Equipment

Property, plant, and equipment at June 30 consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$1,076,567	\$1,076,567
Building and improvements	5,269,893	5,237,548
Furniture and fixtures	62,609	57,496
Automobiles	209,600	209,600
Machinery and equipment	<u>414,689</u>	<u>399,296</u>
	7,033,358	6,980,507
Less accumulated depreciation	<u>2,947,304</u>	<u>2,766,284</u>
	<u>\$4,086,054</u>	<u>\$4,214,223</u>

Note 6 Note Payable

The Organization has a note with Oak Valley Bank with an outstanding balance of \$247,357 and \$300,000 as of June 30, 2019 and 2018, respectively. The note is secured by deed of trust and is due in monthly installments of \$1,460 including fixed interest at 4.99% for the next four years. The interest is then adjustable to the prevailing 5-year treasury note rate plus 2.65%. The note matures November 1, 2043.

The following are maturities of the note for each of the next five years and in the aggregate for the years ending June 30:

2020	\$ 5,314
2021	5,586
2022	5,871
2023	6,171
2024	6,486
Thereafter	<u>217,929</u>
	<u>\$ 247,357</u>

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 7 Donated Capital Assets, Services, Facilities, and Supplies

The Organization received significant contributions of non-cash capital assets, services, facilities, and supplies. Donated supplies and services include clothing, food, medical supplies, and services provided by various professional and companies in Stanislaus County, and other miscellaneous items which are summarized below for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Donated supplies and services	\$4,183,712	\$3,503,782
Donated rents	<u>33,600</u>	<u>24,000</u>
Total recorded as in-kind revenue and expense	4,217,312	3,527,782
Donated capital assets	<u>-</u>	<u>43,660</u>
Total in-kind contributions	<u>\$4,217,312</u>	<u>\$3,571,442</u>

The fair value of contributed donated capital assets, services, facilities, and supplies have been measured on a nonrecurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs). See further information over the fair value measurement determination at Note 12.

Note 8 Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30 consist of the following:

	<u>2019</u>	<u>2018</u>
Backpack Party	\$ -	\$ 12,441
Women & Children's Building	<u>261,564</u>	<u>198,502</u>
	<u>\$ 261,564</u>	<u>\$ 210,943</u>

Note 9 Reclassifications of Net Assets With Donor Restrictions

Reclassifications on the statement of activities and changes in net assets represent net assets with donor restrictions which have been utilized in accordance with the donor restrictions. Donor restriction reclassifications for the years ended June 30 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Backpack Party	\$ 20,231	\$ 5,650
Medical Clinic/Wellness Center	-	17,344
Light of Hope Campaign – Children & Youth Program	<u>9,125</u>	<u>14,632</u>
	<u>\$ 29,356</u>	<u>\$ 37,626</u>

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 10 Operating Leases

The Organization leases home apartments to participants in the programs with monthly rents that range from \$325 to \$1,500 plus insurance and utilities and expire at various times throughout the year. These leases are usually six months in duration and then convert into a month-to-month lease. Rent income for the years ended June 30, 2019 and 2018 was \$117,385 and \$92,504, respectively.

The Organization has an agreement to lease a building to an unrelated party which expires October 2022. Rent income for the years ended June 30, 2019 and 2018 was \$21,904 and \$21,847, respectively.

The Organization entered into an agreement during the year ended June 30, 2019, to lease a building to an unrelated party which expires August 2023. Rent income for the year ended June 30, 2019 was \$30,920.

The cost and accumulated depreciation for assets held for lease with lease terms greater than one year was \$721,282 and \$85,959 at June 30, 2019, respectively. Total cost and accumulated depreciation for assets held for lease with lease terms greater than one year was \$69,470 and \$20,885 at June 30, 2018, respectively. Minimum future rent income for the next four years are as follows for the years ending June 30:

2020	\$ 70,463
2021	58,840
2022	59,537
2023	<u>14,778</u>
	<u>\$203,618</u>

The Organization leases home apartments from an unrelated party. Donated rent expense for the years ended June 30, 2019 and 2018 was \$33,600 and \$24,000, respectively, and is included in rent expense on the statement of functional expenses.

The Organization is obligated under various leasing agreements for the use of office equipment. The operating leases have various terms and options and expire through May 2022. Equipment rental expense for the years ended June 30, 2019 and 2018 was \$3,743 and \$4,371, respectively, and is included in rent expense on the statement of functional expenses.

Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year as of June 30, 2019 for each of the next three years and in the aggregate are:

2020	\$ 1,860
2021	1,860
2022	<u>1,705</u>
Total minimum future rental payments	<u>\$ 5,425</u>

Note 11 Defined Contribution Plan

The Organization has a defined contribution plan, which covers substantially all employees who have met certain eligibility requirements. The plan allows employees to defer a percentage of their compensation up to statutory maximums. The plan allows for discretionary employer matching and non-elective contributions. Employees are fully vested in their salary deferral contributions, and in their discretionary employer matching and non-elective contributions upon meeting certain eligibility requirements. There were no employer contributions to the plan for the years ended June 30, 2019 and 2018.

Note 12 Fair Value Measurements

The framework for measuring fair value 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

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

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

There have been no changes in the methodologies used at June 30, 2019 and 2018. The following is a description of the valuation methodologies used for assets measured at fair value.

Money market funds: Valued at the net asset value (NAV) of shares held by the Organization at year end.

In-kind contributions: Valued at the estimated fair market value as income and expense or assets at the time the items are placed into service or distributed.

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Note 12 Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured on a nonrecurring basis as of and for the years ended:

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Money market funds	\$190,110	\$ -	\$ -	\$ 190,110
In-kind contributions	<u>-</u>	<u>4,217,312</u>	<u>-</u>	<u>4,217,312</u>
Total assets in the fair value hierarchy	<u>\$190,110</u>	<u>\$4,217,312</u>	<u>\$ -</u>	<u>\$4,407,422</u>
	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Money market funds	\$153,101	\$ -	\$ -	\$ 153,101
In-kind contributions	<u>-</u>	<u>3,571,442</u>	<u>-</u>	<u>3,571,442</u>
Total assets in the fair value hierarchy	<u>\$153,101</u>	<u>\$3,571,442</u>	<u>\$ -</u>	<u>\$3,724,543</u>