

**HOPE OF THE VALLEY RESCUE MISSION**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**HOPE OF THE VALLEY RESCUE MISSION  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Hope of the Valley Rescue Mission  
Mission Hills, California

We have audited the accompanying financial statements of Hope of the Valley Rescue Mission (the Mission), which comprise the statement of financial position as of December 31, 2015, 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.

### ***Auditors' 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 auditors' 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.

Board of Directors  
Hope of the Valley Rescue Mission

***Basis for Qualified Opinion***

We did not observe the taking of the physical inventories at December 31, 2015 (stated at \$277,843), since those dates were prior to the time we were initially engaged as auditors of the Mission. We were unable to obtain sufficient appropriate audit evidence about inventory quantities by other auditing procedures.

***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 above present fairly, in all material respects, the financial position of the Mission as of December 31, 2015, 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.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Pasadena, California  
January 16, 2017

**HOPE OF THE VALLEY RESCUE MISSION  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2015**

**ASSETS**

Cash	\$ 325,905
Accounts Receivable	138,190
Inventory	277,843
Prepaid Expenses and Other Assets	106,569
Property and Equipment, Net	<u>4,227,845</u>
 Total Assets	 <u><u>\$ 5,076,352</u></u>

**LIABILITIES**

Accounts Payable and Accrued Expenses	\$ 404,966
Advances	66,246
Deferred Rent Liability	24,163
Notes Payable	<u>3,462,981</u>
Total Liabilities	<u>3,958,356</u>

**LEASE COMMITMENTS**

**NET ASSETS**

Unrestricted	<u>1,117,996</u>
 Total Liabilities and Net Assets	 <u><u>\$ 5,076,352</u></u>

See accompanying Notes to Financial Statements.

**HOPE OF THE VALLEY RESCUE MISSION  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>			
Contributions	\$ 1,182,199	\$ -	\$ 1,182,199
In-Kind Contributions	472,525	-	472,525
Thrift Stores	1,913,165	-	1,913,165
Contract Fees	530,988	-	530,988
Special Events, Net of Expenses of \$92,203	74,731	-	74,731
Net Assets Released from Restrictions	84,606	(84,606)	-
Total Revenue and Support	<u>4,258,214</u>	<u>(84,606)</u>	<u>4,173,608</u>
<b>EXPENSES</b>			
Program	3,300,669	-	3,300,669
Management and General	486,706	-	486,706
Fundraising	417,499	-	417,499
Total Expenses	<u>4,204,874</u>	<u>-</u>	<u>4,204,874</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	53,340	(84,606)	(31,266)
Net Assets - Beginning of Year	<u>1,064,656</u>	<u>84,606</u>	<u>1,149,262</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 1,117,996</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,117,996</u></u>

See accompanying Notes to Financial Statements.

**HOPE OF THE VALLEY RESCUE MISSION  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2015**

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Related Expenses	\$ 1,386,327	\$ 236,646	\$ 123,470	\$ 1,746,443
Contract Service Expenses	36,015	65,324	141,558	242,897
Nonpersonnel Expenses	494,741	62,638	58,659	616,038
Facility and Equipment Expenses	962,878	71,525	7,671	1,042,074
Travel and Meetings Expenses	50,613	5,717	3,437	59,767
Other Client Specific Expenses	61,331	-	-	61,331
Other Expenses	308,764	44,856	82,704	436,324
	<u>\$ 3,300,669</u>	<u>\$ 486,706</u>	<u>\$ 417,499</u>	<u>\$ 4,204,874</u>

See accompanying Notes to Financial Statements.

**HOPE OF THE VALLEY RESCUE MISSION  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2015**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ (31,266)
Adjustments to Reconcile Change in Net Assets to Net Cash	
Used by Operating Activities:	
Depreciation	118,697
Contributions for Capital Campaign	(441,437)
Change in Assets and Liabilities:	
Accounts Receivable	(100,320)
Pledges Receivable	72,120
Inventory	(59,407)
Prepaid Expenses and Other Assets	31,866
Accounts Payable and Accrued Expenses	149,613
Advances	66,246
Deferred Rent Liability	24,163
Net Cash Used by Operating Activities	(169,725)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of Property and Equipment	(1,859,036)
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**CASH FLOWS FROM FINANCING ACTIVITIES**

Contributions for Capital Campaign	441,437
Proceeds from Notes Payable	1,300,000
Payments on Notes Payable	(99,099)
Net Cash Provided by Financing Activities	1,642,338

**NET DECREASE IN CASH**

(386,423)

Cash - Beginning of Year

712,328

**CASH - END OF YEAR**

\$ 325,905

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash Paid for Interest	\$ 92,456
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See accompanying Notes to Financial Statements.

**HOPE OF THE VALLEY RESCUE MISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Hope of the Valley Rescue Mission (the Mission), a California nonprofit corporation located in Mission Hills, California, was formed in the summer of 2009. Its mission is to attract people and resources to assist in the effort of meeting the needs of every hungry and homeless man, woman and child in the San Fernando Valley and surrounding areas. Through strategic partnerships and services, the Mission empowers its clients with the faith, knowledge, resources and skills to lead a life of wholeness and self-sufficiency.

The Mission's vision is to tangibly demonstrate God's love to the Hungry, Homeless and Hurting of the San Fernando Valley by offering **Hope, Hot Meals, Housing, Health Services and Healing** to those in need.

- **Hope** - A message of love, support and freedom for a better tomorrow
- **Hot Meals** - Food distribution to the hungry
- **Housing** - Emergency/transitional shelter to the situational and chronically homeless
- **Health Services** - Resources for basic human needs
- **Healing** - Proven programs that lead to wholeness and self-sufficiency

As a faith-based compassion ministry, the Mission focuses on the spiritual, emotional, physical, relational, occupational, and financial needs of our clients. The Mission's leadership seeks to operate in and promote an atmosphere that is entrepreneurial, strategic and practical. The Mission develops well thought out strategies and implements them through teams of skilled and faithful staff and volunteer workers. Partnering with individuals, businesses, civic organizations, faith based organizations and government agencies, the Mission expects to grow and serve ever greater numbers of those in need.

**Financial Statement Presentation**

The financial statements of the Mission have been prepared in conformity to accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Mission and changes therein have been classified and are reported as follows:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations; donor-restricted contributions whose restrictions are met in the same reporting period; and net assets designated by the board of directors or management for specific purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Mission and/or by the passage of time. The Mission had no temporarily restricted net assets as of December 31, 2015.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Mission. Generally, the donors of these assets permit the Mission to use all or part of the income earned on related investments for general or specific purposes. The Mission had no permanently restricted net assets as of December 31, 2015.

**HOPE OF THE VALLEY RESCUE MISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue and Expense Recognition**

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

**Contributions**

Unconditional promises (pledges) to give are recorded as receivables and revenues. For financial reporting purposes, the Mission distinguishes between contributions of unrestricted assets, temporarily restricted assets and permanently restricted assets. Contributions on which donors have imposed restrictions which limit the use of the donated assets are reported as restricted. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Contributed assets which are subject to perpetual donor restrictions and from which only the current income may be used are classified as permanently restricted assets. Contributed assets for which donors have not stipulated restrictions, as well as contributions on which donors have placed restrictions which are met within the same reporting period, are reported as unrestricted contributions.

**Expiration of Donor-Imposed Restrictions**

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Contributed Services**

Contributed services are recognized as contributions in accordance with ASC 958-605, *Not-for-Profit Entities, Revenue Recognition*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Mission. Many volunteers provide services throughout the year that are not recognized as contributions in the financial statements, because the recognition criteria under ASC 958-605 was not met. It is impracticable to determine the fair market value of all donated services by the volunteers of the Mission beyond those required to be recognized as income.

**Deferred Rent Liability**

The Mission has entered into operating lease agreements for land and building facilities which contain provisions for future rent increases, or periods in which rent payments are reduced (abated). In accordance with accounting principles generally accepted in the United States of America, the Mission records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months in the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent liability, which is reflected as a separate line item in the accompanying statements of financial position

**HOPE OF THE VALLEY RESCUE MISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**In-Kind Contributions**

In-kind contributions are tangible noncash gifts reported at fair value.

**Contract Fees**

Contract fees revenue is revenue earned by providing emergency housing to single mothers and children at the Genesis House referred to by Los Angeles Homeless Services Authority. Revenue earned and not collected at year-end was reported as Accounts Receivable, which is reported at net realizable value.

**Cash**

Cash includes cash in checking and savings accounts.

**Concentration of Credit Risk**

Financial instruments that potentially subject the Mission to credit risk are cash. The Federal Deposit Insurance Corporation insures cash accounts held in banks up to statutory limits. The Mission's cash accounts may exceed insured limits at times and has not experienced any losses in such accounts.

**Property and Depreciation**

Properties purchased are recorded at cost. Donated assets are capitalized at fair market value on the date of the gift. All property in excess of \$1,000 is recorded as a fixed asset. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	30 Years
Leasehold Improvements	Shorter of Lease Term or 2 to 5 Years
Furniture and Fixtures	7 Years
Vehicles	4 Years

**Inventory**

Contributed inventory for the thrift stores are stated at fair value which is measured at the average thrift store sale price per item during the month of December.

**Income Taxes**

The Mission is a nonprofit public benefit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC. The Mission has received favorable determination letters indicating it is exempt from Federal income taxes under Section 501(c)(3) of the IRC and California franchise taxes under Section 23701 of the California Revenue Taxation Code.

**HOPE OF THE VALLEY RESCUE MISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes all of the positions taken by the Mission are more likely than not to be sustained upon examination. The returns are subject to examination by federal and state taxing authorities generally three and four years, respectively, after they are filed.

**Functional Allocation of Expenses**

The cost of providing the various programs and other activities has been summarized on a functional basis in the statements of activities. Accordingly, certain costs has been allocated among the programs and supporting services.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles may require management to make estimates and assumptions regarding the reported amounts of assets, liabilities, contingent assets and liabilities at the date of the financial statements and those estimates also affect the amounts of revenues and expenses reported during the period. Actual results could differ from those estimates.

**Subsequent Events**

Subsequent events have been evaluated through January 16, 2017, the date these financial statements were available to be issued. There were no subsequent events that would require adjustments or disclosures in these financial statements.

**New Accounting Pronouncement Effective in Next Accounting Period**

In August 2016, FASB issued ASU 2016-14 Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This standard was issued to improve the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal year beginning after December 15, 2017, with early adoption permitted. Management will be evaluating the effects of this new standard.

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the entity's financial statements.

**HOPE OF THE VALLEY RESCUE MISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 2 PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2015 is as follows:

Land	\$ 555,700
Buildings	1,813,224
Building and Leasehold Improvements	179,418
Vehicles	121,845
Furniture and Fixtures	78,538
Construction in Progress	1,841,694
Total Property and Equipment	<u>4,590,419</u>
Accumulated Depreciation	<u>(362,574)</u>
Property and Equipment, Net	<u>\$ 4,227,845</u>

**NOTE 3 NOTES PAYABLE**

In November 2011, the Mission entered into a note payable agreement with a board member in the amount of \$190,000 to purchase a house (House of Hope). The interest rate of the note is 6% and is due in November 2016 with monthly principal and interest payments of \$1,139. The note contains an early payment penalty of 2% and is secured by the deed of trust. The payments are made to the board member's retirement fund custodian, Millennium Trust Company, LLC. In November 2016, the Mission amending the terms of this note payable. The maturity date was extended from November 2016 to November 2021 and the interest rate was reduced from 6% to 5.4%.

In August 2014, the Mission entered into a new secured loan for the amount of \$450,000 for purposes of refinancing the purchase of the Genesis House maturing September 1, 2019. This loan is secured by the deed of trust and requires monthly payments of \$2,467 through September 1, 2019 which includes both principal and interest with an interest rate of 4.303%, as defined.

In May 2014, the Mission obtained a \$1,674,000 loan with its bank that matures on June 1, 2029. The loan bears interest at a fixed rate of 3.714% through May 31, 2019. On June 1, 2019 and June 1, 2024, the interest rate will be adjusted to the greater of 3.5% or the five year Treasury Rate plus 1.99% Commencing July 1, 2014, interest and principal is payable in equal monthly installments through June 1, 2029, at which time all outstanding principal and interest is due. Monthly installment amounts will be adjusted on June 1, 2019 and June 1, 2024. The loan is secured by deed of trust and security agreement.

In May, October, November, and December 2015, the Mission obtained notes payable with the son of a board member. These notes required interest only payments with the principal being paid in full in 2017. The loan is secured by deed of trust and security agreement.

**HOPE OF THE VALLEY RESCUE MISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 3 NOTES PAYABLE (CONTINUED)**

At December 31, 2015, notes payable balances were as follows:

Mortgage payable, with CNB, interest 3.714%, due June 2029	\$ 1,545,961
Mortgage payable, with CNB, interest 4.3%, due September 2019	437,210
Note payable, board member, interest 6%, due November 2016 (interest 5.4%, due November 2021)	179,810
Note payable, son of board member, interest only at 5.4%, due May 2017	500,000
Note payable, son of board member, interest only at 5.4%, due November 2017	150,000
Note payable, son of board member, interest only at 5.4%, due December 2017	150,000
Note payable, son of board member, interest only at 5.4%, due October 2017	500,000
	<u>500,000</u>
	<u>\$ 3,462,981</u>

At December 31, 2015, future principal payments on the outstanding notes payable are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$ 280,761
2017	1,404,830
2018	108,859
2019	113,044
2020	117,390
Thereafter	1,438,097
Total	<u>\$ 3,462,981</u>

**NOTE 4 RETIREMENT PLAN**

As of January 1, 2012, the Mission has a non-ERISA 403(b) defined contribution retirement plan for eligible employees. Eligibility begins immediately and participants can make voluntary tax-deferred contributions to the plan up to statutory limits. The Mission does not contribute to the plan.

**HOPE OF THE VALLEY RESCUE MISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 5 LEASE COMMITMENTS**

In August 2012, the Mission extended a facility lease for its administrative office and thrift shop located on San Fernando Road expiring in December 15, 2014. Monthly minimum lease payments are \$8,890 for 2014. The Mission had until September 15, 2014 to extend the lease for an additional two years. The Mission did not extend the lease as of September 15, 2014 and was on a month-to-month cancelable lease. The lease was amended on August 2015, expiring on October 2016, with a monthly lease payment of \$9,335.

In August 2012, the Mission entered into a five year facility lease agreement for a second thrift shop located on Chatsworth Street. The agreement expires in November 2017 with monthly base rent of \$11,711 and additional fees at \$0.18 per square foot. The agreement provides rent for the 13<sup>th</sup> and 25<sup>th</sup> months to be reduced by 50% as long as all payments have been made and has a 3% annual rent increase.

In October 2012, the Mission entered into a one year facility use agreement with a nonprofit organization to use their kitchen located in Sylmar, California. The kitchen is used to provide meals to the homeless. The agreement has monthly rent of \$725. Currently the lease is on a month-to month basis.

In February 2015, the Mission entered into a three-year facility lease agreement for a third thrift shop located in Santa Clarita Valley. The agreement expires in January 2018 with monthly base rent of \$14,345 and additional fees of \$3,873 for Common Area Maintenance and \$574 for advertising. The agreement has an option to extend the lease for two three-year options. The agreement is subject to a 3% annual rent increase.

In April 2015, the Mission entered into a five year facility lease agreement with a Church to use the building and property located in Van Nuys, California. The agreement expires in March 2020 with a monthly base rent of \$4,806 and 3% annual increase.

At December 31, 2015, future minimum lease payments under the four noncancelable facility lease agreements are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$ 533,015
2017	439,284
2018	82,497
2019	64,438
2020	16,228
Total	<u><u>\$ 1,135,462</u></u>

**HOPE OF THE VALLEY RESCUE MISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 6 TEMPORARILY RESTRICTED NET ASSETS**

During the fiscal year ended December 31, 2015, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

Purpose Restricted for Programs:	
Genesis House	\$ 928
House of Hope	83,678
Total	<u>\$ 84,606</u>

**NOTE 7 IN-KIND CONTRIBUTIONS**

For the year ended December 31, 2015, in-kind contributions included donations to the thrift stores, food, drinks, household goods, and toiletries in the amount of \$472,525 used for homeless recovery programs and Thanksgiving and Christmas meals.

**NOTE 8 SPECIAL EVENTS**

The Mission engaged in various fundraising activities during the year ended December 31, 2015 as follows:

	<u>Revenue</u>	<u>Expenses</u>	<u>Net Revenue</u>
Spring Gala	\$ 30,906	\$ 27,217	\$ 3,689
Banquet	64,996	6,750	58,246
Drumstick Dash	34,698	7,907	26,791
Other	36,334	50,329	(13,995)
Total	<u>\$ 166,934</u>	<u>\$ 92,203</u>	<u>\$ 74,731</u>

**NOTE 9 THRIFT STORES**

For the year ended December 31, 2015, the Mission operated three thrift stores in the San Fernando Valley. The items sold in the thrift stores are mainly donated items. For the year ended December 31, 2015, thrift stores revenue were \$1,913,165 and expenses were \$1,332,165.