

Vesper Society

Financial Statements

December 31, 2014 and 2013



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Vesper Society
San Francisco, California

We have audited the accompanying financial statements of Vesper Society (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Vesper Society's 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vesper Society as of December 31, 2014 and 2013, 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.


Armanino^{LLP}
San Ramon, California

March 18, 2015

VESPER SOCIETY
Statements of Financial Position
December 31, 2014 and 2013

	<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current assets			
Cash and cash equivalents		\$ 73,076	\$ 54,200
Investments		31,401,027	30,956,053
Advances to project partners		610,884	564,193
Contributions receivable		1,200	1,600
Prepaid expenses		11,985	12,316
Total current assets		<u>32,098,172</u>	<u>31,588,362</u>
Property and equipment, net		3,327	6,747
Deposits		<u>3,119</u>	<u>3,119</u>
Total assets		<u>\$ 32,104,618</u>	<u>\$ 31,598,228</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current liabilities			
Accounts payable and accrued expenses		\$ 59,659	\$ 50,182
Accrued vacation		21,019	15,827
Short-term lease payable		1,985	1,518
Total current liabilities		<u>82,663</u>	<u>67,527</u>
Noncurrent liabilities			
Deferred excise taxes		106,602	111,187
Long-term lease payable		2,113	4,098
Total noncurrent liabilities		<u>108,715</u>	<u>115,285</u>
Total liabilities		<u>191,378</u>	<u>182,812</u>
Net assets			
Unrestricted		31,885,890	31,397,023
Unrestricted - Board designated		26,898	18,393
Temporarily restricted for partner capacity building		452	-
Total net assets		<u>31,913,240</u>	<u>31,415,416</u>
Total liabilities and net assets		<u>\$ 32,104,618</u>	<u>\$ 31,598,228</u>

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

VESPER SOCIETY
Statements of Activities
For the Years Ended December 31, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support, gains (losses) and revenue						
Interest and dividends	\$ 1,507,443	\$ -	\$ 1,507,443	\$ 1,002,755	\$ -	\$ 1,002,755
Net gain from investments	271,406	-	271,406	3,329,524	-	3,329,524
Contributions	9,787	5,000	14,787	8,211	-	8,211
Other income (loss)	(1,081)	-	(1,081)	2,022	-	2,022
Net assets released from restrictions	4,548	(4,548)	-	-	-	-
Total support, gains (losses) and revenue	<u>1,792,103</u>	<u>452</u>	<u>1,792,555</u>	<u>4,342,512</u>	<u>-</u>	<u>4,342,512</u>
Expenses						
Program services						
Health services	624,106	-	624,106	355,060	-	355,060
Youth services	180,562	-	180,562	193,264	-	193,264
Service in the world	74,721	-	74,721	98,029	-	98,029
Partner capacity building	19,787	-	19,787	-	-	-
Supporting services						
Management and general	360,099	-	360,099	297,509	-	297,509
Net excise tax expense	35,456	-	35,456	116,612	-	116,612
Total expenses	<u>1,294,731</u>	<u>-</u>	<u>1,294,731</u>	<u>1,060,474</u>	<u>-</u>	<u>1,060,474</u>
Change in net assets	497,372	452	497,824	3,282,038	-	3,282,038
Net assets at beginning of year	<u>31,415,416</u>	<u>-</u>	<u>31,415,416</u>	<u>28,133,378</u>	<u>-</u>	<u>28,133,378</u>
Net assets at end of year	<u>\$ 31,912,788</u>	<u>\$ 452</u>	<u>\$ 31,913,240</u>	<u>\$ 31,415,416</u>	<u>\$ -</u>	<u>\$ 31,415,416</u>

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

VESPER SOCIETY
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Change in net assets	\$ 497,824	\$ 3,282,038
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	3,420	3,097
Realized and unrealized gain on investments	(413,353)	(3,459,998)
Deferred excise taxes	(4,585)	81,243
Changes in operating assets and liabilities		
Pledges receivable	400	5,300
Prepaid expenses	331	8,096
Advances to project partners	(46,691)	(321,482)
Accounts payable and accrued expenses	14,669	18,068
Net cash provided by (used in) operating activities	52,015	(383,638)
Cash flows from investing activities		
Payments on loan receivable	-	10,000
Purchase of investments	(2,235,758)	(2,915,431)
Proceeds from the sale of investments	2,204,137	3,271,060
Net cash provided by (used in) investing activities	(31,621)	365,629
Cash flows from financing activities		
Payments on lease obligation	(1,518)	(521)
Net cash used in financing activities	(1,518)	(521)
Change in cash and cash equivalents	18,876	(18,530)
Cash and cash equivalents, beginning of year	54,200	72,730
Cash and cash equivalents, end of year	\$ 73,076	\$ 54,200
 <u>Supplemental disclosures of cash flow information</u>		
Cash paid during year for		
Interest	\$ 1,344	\$ 671
Taxes	\$ 23,500	\$ 26,250
Equipment acquired under capital lease	\$ -	\$ 6,137

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

VESPER SOCIETY
Notes to Financial Statements
December 31, 2014 and 2013

1. Nature of Organization

Vesper Society is a California not-for-profit corporation located in San Francisco, California. The mission of Vesper Society is to promote social justice locally and globally by addressing critical social issues including the provision of health services for the underserved. The purposes of Vesper Society are:

- 1) To provide care, treatment, diagnosis, hospitalization and other health services to injured, afflicted, sick, infirm and aged persons.
- 2) To promote social justice by assisting individuals and organizations to address social and ethical issues from a faith-based moral and ethical perspective and by encouraging the laity to work from such a perspective, particularly for the benefit of the underserved.

Vesper Society invests funds received from the sale of two hospitals. Substantial revenue is generated from these investments, which subjects Vesper Society's income to market forces. The Attorney General of the State of California has required Vesper Society to spend at least 60% of its annual program expenditures, excluding expenses generated by grants, gifts and other donations received after January 1, 2003, for the provision of care, treatment, diagnosis, hospitalization and other health services to injured, afflicted, sick, infirm and aged persons. Compliance with this requirement is determined on the basis of a three-year rolling average. Management believes that Vesper Society is in compliance with this requirement.

Program activities of Vesper Society included:

Health Services to the Underserved

Telehealth Behavioral Services - Vesper Society is working with Connecting to Care in Redding and Grass Valley, California, to increase access to rural Northern California clients seeking care for behavioral health and/or psychiatric issues through the development of a comprehensive telehealth program.

Telehealth Services - Vesper Society is working with Surprise Valley Health Care District (SVHCD) in Modoc County, California, to expand their telehealth program which is a critically needed specialty care service in this remote and medically underserved rural, frontier region of Northern California.

Chronic Disease Program - Vesper Society is working with Clinic by the Bay in San Francisco, California, to expand its chronic disease management program for working uninsured patients living in the Excelsior/Outer Mission neighborhoods in San Francisco and Daly City.

Behavioral Health Services - Vesper Society is working with La Clínica de la Raza in Oakley, California, to increase access to behavioral health services in Oakley and surrounding areas and address behavioral health problems by providing integrated services to patients at the clinic.

VESPER SOCIETY
Notes to Financial Statements
December 31, 2014 and 2013

1. Nature of Organization (continued)

Health Care Access - Vesper Society is working with Operation Access in San Francisco, California, to provide specialty health care services and donated surgeries for low-income, uninsured people living in East Contra Costa County, California.

Dental Services for Youth - Vesper Society is working with John Muir Health Foundation's Mobile Dental Clinic to provide free dental services for children and youth through age 19 in underserved and low-income communities in Contra Costa County, California.

Asthma Program - Vesper Society is working with Clinicas de Salud del Pueblo (CSDSP) in El Centro, California, to establish a comprehensive asthma program for their high-risk pediatric patients throughout Imperial and Riverside Counties, California.

Youth Services

Opportunities for Hayward Community School Students - Vesper Society is working with the Alameda County Office of Education - Hayward Community School in Hayward, California, to provide new learning opportunities for students including field trips to the museum and science center to encourage them on a successful pathway back to their home schools.

Youth Empowerment - Vesper Society is working with the City of Oakley, California, to develop and implement activities for youth and families through the Oakley Youth Advisory Council. These programs instill a sense of competence, values, belonging, and worth that strengthen positive civic participation.

Expanding Career Opportunities for Youth - Vesper Society is working with the Imperial Valley Regional Occupational Program (IVROP) in El Centro, California, to develop and provide quality training, career, technological, and education services to empower students to become successful contributing members of a global society.

Service in the World

Cummings Interns - Vesper Society is working with California Lutheran University (CLU) in Thousand Oaks, California, to provide opportunities for CLU students to work on interfaith issues and service learning. The activities will enable us to build a base of knowledge that will contribute to the larger field of interfaith studies.

Social Justice Ministry - Vesper Society is working with First United Methodist Church in El Centro, California, to explore the creation of a social justice ministry to tackle issues of hunger in the Imperial Valley, where one-third of Imperial County residents are food insecure; half of those are children.

VESPER SOCIETY
Notes to Financial Statements
December 31, 2014 and 2013

1. Nature of Organization (continued)

Partner Capacity Building

The Partner Capacity Building program exists to respond to the organizational development needs of our project partners.

2. Summary of Significant Accounting Policies

Basis of accounting

The financial statements of Vesper Society have been prepared using the accrual basis of accounting whereby revenue and gains, except contribution revenue, are recognized when earned and expenses and losses when incurred.

Basis of presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. The following describes Vesper Society's net asset classifications:

Unrestricted net assets

The portion of net assets that is neither temporarily nor permanently restricted by donors. A portion of the unrestricted net assets at December 31, 2014 and 2013 has been designated for future use to be determined by the Board of Directors.

Temporarily restricted net assets

The portion of net assets for which the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization at December 31, 2014. There were no temporarily restricted net assets at December 31, 2013.

VESPER SOCIETY
Notes to Financial Statements
December 31, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

Vesper Society considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash on deposit occasionally exceeds federally insured limits. Vesper Society believes it mitigates this risk by maintaining deposits with major financial institutions.

Investments and fair value measurements

Investments in marketable securities are reported at fair value based on their published market value. Investment income and realized and unrealized gains and losses are reported as increases or decreases in unrestricted net assets unless a donor temporarily or permanently restricts their use. Purchases and sales of securities are recorded on a trade-date basis.

Vesper Society's investment securities are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Vesper Society determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Vesper Society has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

Unobservable inputs reflect Vesper Society's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include Vesper Society's own data.

VESPER SOCIETY
Notes to Financial Statements
December 31, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

Property and equipment

Acquisitions of equipment with a cost, or fair value, of \$2,500 or more and significant leasehold improvements are capitalized. Property and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of contributions. Depreciation is provided over the estimated useful lives of the assets, primarily three to seven years, using the straight-line method of depreciation. Leasehold improvements are amortized using the straight-line method over the remaining life of the lease or the estimated useful lives of the improvements, whichever is shorter.

Contributions and promises to give

Contributions received and promises to give are reported as unrestricted, temporarily restricted or permanently restricted, depending upon donor restrictions (if any).

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions receivable that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful contributions receivable, if applicable, is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable. There were no promises to give deemed to be potentially uncollectible at December 31, 2014 and 2013.

Accounting for payments to partners

Vesper Society seeks project partners to collaborate with in conducting various projects that are in line with its mission and help accomplish Vesper Society's programmatic objectives. Payments to project partners are recorded as expenses when programmatic objectives have been met and/or tasks enumerated in the memorandum of understanding with the partner have been completed. Any funding provided but not expended before the end of the year is recorded as a project partner advance in the statements of financial position. Since Vesper Society receives a benefit and establishes specific deliverables from the participating partners, these activities are recorded as exchange transactions.

Income taxes

Vesper Society is exempt from Federal and State income tax under Section 501(c) (3) of the Internal Revenue Code (the Code) and Section 23701(d) of the State Revenue and Taxation Code as a "Private Operating Foundation", whereby its net investment income is subject to excise taxes.

VESPER SOCIETY
Notes to Financial Statements
December 31, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

Income taxes (continued)

In accordance with the applicable provisions of the Code, Vesper Society is subject to an excise tax of 1% (2% if minimum payout requirements prescribed by the Code are not met) on its net investment income, excluding unrealized gains. In addition, the Code requires that certain minimum distributions be made in accordance with a specified formula. Vesper Society estimates and records its excise taxes to include a provision for deferred taxes on unrealized gains and losses on its investments. Vesper Society has evaluated its current tax positions and has concluded that as of December 31, 2014 and 2013, it does not have any significant uncertain tax positions for which a reserve would be necessary. Vesper Society's annual informational returns are subject to examination by the IRS, generally for three years after they are filed.

Allocation of functional expenses

Common costs, primarily related to the operation and maintenance of an office facility, are pooled in a cost center and allocated in total among program and supporting activities benefited. The basis for allocation was direct salaries in both 2013 and 2014. Salaries and related expenses are allocated to program and supporting activities based on management's estimate of the level of staff effort in each activity.

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. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant accounting estimates reflected in Vesper Society's financial statements include the functional allocation of expenses. Actual results could differ from those estimates.

3. Investments

The investments of Vesper Society consisted of the following, at fair value:

	<u>2014</u>	<u>2013</u>
Money market funds	\$ 15,304	\$ 16,093
Fixed income	4,551	6,296
Bond funds	9,104,009	8,609,714
Equity funds	<u>22,277,163</u>	<u>22,323,950</u>
Total investments	<u>\$31,401,027</u>	<u>\$30,956,053</u>

VESPER SOCIETY
Notes to Financial Statements
December 31, 2014 and 2013

3. Investments (continued)

The components of total investment return are reflected below:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$1,507,443	\$1,002,755
Realized gains	628,563	896,149
Unrealized (loss) gain	<u>(215,210)</u>	<u>2,563,849</u>
Total investment return	<u>\$1,920,796</u>	<u>\$4,462,753</u>

Investment expenses, which primarily consist of custodial and management fees, were \$141,947 and \$130,474 during the years ended December 31, 2014 and 2013, respectively. These expenses are netted against investment gains and losses on the statements of activities.

4. Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2014</u>	<u>2013</u>
Equipment	\$ 15,001	\$54,811
Accumulated depreciation	<u>(11,674)</u>	<u>(48,064)</u>
	<u>\$ 3,327</u>	<u>\$ 6,747</u>

Depreciation expense for the years ended December 31, 2014 and 2013 was \$3,420 and \$3,097, respectively.

5. Federal Excise Tax

Excise tax expense differs from amounts currently payable because certain investment income is included in the statements of activities in periods that differ from those in which it is subject to taxation. The difference between tax expense and taxes currently payable is reflected as a deferred tax liability on the statements of financial position. Deferred excise taxes at December 31, 2014 and 2013 were \$106,602 and \$111,187, respectively.

VESPER SOCIETY
Notes to Financial Statements
December 31, 2014 and 2013

5. Federal Excise Tax (continued)

Vesper Society was subject to a 2% excise tax for the years ended December 31, 2014 and 2013. The provisions for excise taxes were as follows:

	<u>2014</u>	<u>2013</u>
Current	\$40,041	\$ 35,369
Deferred tax (benefit) expense	<u>(4,585)</u>	<u>81,243</u>
Total	<u>\$35,456</u>	<u>\$116,612</u>

6. Pension Plan

Vesper Society provides a defined contribution plan to all employees who normally work more than 20 hours per week after completion of six months of employment.

Vesper Society makes annual contributions to this plan equal to a certain percentage of each employee's compensation up to a ceiling that is adjusted in accordance with Internal Revenue Service determined amounts each year. Total contributions to this plan during the years ended December 31, 2014 and 2013 were \$14,991 and \$15,822, respectively.

7. Operating Leases

Vesper Society has a commitment under an operating lease for its office space which was extended through October 31, 2018. Rent expense was \$45,417 and \$49,957 during the years ended December 31, 2014 and 2013, respectively. The minimum future lease payments required under non-cancellable operating leases as of December 31, 2014 are as follows:

<u>Year Ending December 31,</u>	
2015	\$ 58,886
2016	60,652
2017	62,472
2018	<u>53,355</u>
Total	<u>\$235,365</u>

VESPER SOCIETY
Notes to Financial Statements
December 31, 2014 and 2013

7. Operating Leases (continued)

Vesper Society began subleasing a part of its office on August 1, 2013 under a non-cancellable operating lease arrangement that expires October 31, 2018. Sublease income was \$13,200 and \$6,850 at December 31, 2014 and 2013, respectively, and was recorded net of operating lease expense of \$14,293 and \$5,370 on the statement of activities. The expected future sublease income as of December 31, 2014 is as follows:

<u>Year Ending December 31,</u>	
2015	\$13,464
2016	13,733
2017	14,008
2018	<u>11,907</u>
Total	<u>\$53,112</u>

8. Capital Lease

Vesper Society leases office equipment under a capital lease requiring monthly payments of \$238 through October 2016.

Following is a schedule of future minimum lease payments at December 31, 2014:

<u>Fiscal Year Ending December 31,</u>	
2015	\$2,862
2016	<u>2,385</u>
Total minimum lease payments	5,247
Less amount representing interest	<u>(1,149)</u>
Present value of net minimum lease payments	4,098
Less current portion	<u>(1,985)</u>
	<u>\$2,113</u>

Interest expense related to the capital lease obligations amounted to \$1,344 and \$671 for the years ended December 31, 2014 and 2013, respectively.

VESPER SOCIETY
Notes to Financial Statements
December 31, 2014 and 2013

9. Fair Value Measurements

The following are the major categories of financial assets and liabilities measured at fair value during the years ended December 31, 2014 and 2013, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Fair Value</u>
December 31, 2014				
Equity funds	\$22,277,163	\$ -	\$ -	\$22,277,163
Bond funds	9,104,009	-	-	9,104,009
Money market	15,304	-	-	15,304
Fixed income	<u>-</u>	<u>4,551</u>	<u>-</u>	<u>4,551</u>
Total	<u>\$31,396,476</u>	<u>\$ 4,551</u>	<u>\$ -</u>	<u>\$31,401,027</u>
December 31, 2013				
Equity funds	\$22,323,950	\$ -	\$ -	\$22,323,950
Bond funds	8,609,714	-	-	8,609,714
Money market	16,093	-	-	16,093
Fixed income	<u>-</u>	<u>6,296</u>	<u>-</u>	<u>6,296</u>
Total	<u>\$30,949,757</u>	<u>\$ 6,296</u>	<u>\$ -</u>	<u>\$30,956,053</u>

The fair value of equity funds, bond funds and money market funds is measured on a recurring basis using market quotations for identical investments. The fair value of fixed income securities in managed accounts is measured on a recurring basis using quoted rates for identical or similar investments.

10. Commitments to Project Partners

Vesper Society had unfulfilled commitments to its project partners in the amount of \$440,000 and \$252,518 as of December 31, 2014 and 2013, respectively. These commitments will be fulfilled once project partners meet certain thresholds in accordance with their memorandum of understanding with Vesper Society.

11. Subsequent events

Vesper Society has evaluated subsequent events through March 18, 2015, the date which the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of Vesper Society's financial statements