

CONSOLIDATED FINANCIAL STATEMENTS

**WATERFRONT RESCUE MISSION, INC.
AND AFFILIATED ORGANIZATIONS**

DECEMBER 31, 2020

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**BROWN
THORNTON ♦ PACENTA
& Company, P.A.**

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Waterfront Rescue Mission, Inc.
and Affiliated Organizations
Pensacola, Florida

We have audited the accompanying consolidated financial statements of the Waterfront Rescue Mission, Inc. (a nonprofit organization) and Affiliated Organizations, which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Waterfront Rescue Mission, Inc. and Affiliated Organizations as of December 31, 2020, and the changes in their net assets, functional expenses, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Waterfront Rescue Mission, Inc. and Affiliated Organizations' 2019 consolidated financial statements, and in our report dated July 15, 2020, we expressed an unmodified audit opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Brown Sheraton Parenta & Company, P.A.

Pensacola, Florida
August 4, 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

DECEMBER 31, 2020
(With comparative totals for 2019)

	<u>ASSETS</u>	
	2020	2019
ASSETS		
Cash and cash equivalents	\$ 6,107,692	\$ 2,288,553
Accounts receivable	50,145	40,278
Contribution receivable	82,000	-
Pledges receivable, net	120,000	40,000
Contributed merchandise inventory	912,442	948,248
Purchased merchandise inventory	59,359	26,710
Prepaid expenses and deposits	225,052	321,068
Investments	30,857	22,771
Note receivable	-	5,277,000
Construction in progress	105,443	-
Land, buildings, and equipment, net	12,140,834	13,100,040
 Total assets	\$ 19,833,824	\$ 22,064,668
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 144,262	\$ 238,147
Accrued liabilities	211,759	237,146
Accrued compensated absences	224,018	314,405
Notes payable, net	2,639,839	8,491,002
Contingent notes payable	1,225,243	1,225,243
Deposits payable	12,043	12,043
Deferred revenues	46,438	45,116
 Total liabilities	4,503,602	10,563,102
 NET ASSETS		
Without donor restrictions	15,115,912	11,445,337
With donor restrictions	214,310	56,229
 Total net assets	15,330,222	11,501,566
 Total liabilities and net assets	\$ 19,833,824	\$ 22,064,668

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

CONSOLIDATED STATEMENT OF ACTIVITIES

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

YEAR ENDED DECEMBER 31, 2020
(With comparative totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
CHANGES IN NET ASSETS				
REVENUE AND SUPPORT				
Sales of purchased merchandise (less cost of \$218,511 and \$220,287)	\$ 143,448	\$ -	\$ 143,448	\$ 128,041
Merchandise contributed for sale (less cost of recyclables of \$10,526 and \$13,015)	6,139,856	-	6,139,856	7,728,245
Donated services and in-kind goods	238,103	-	238,103	519,786
Pledges revenue	-	120,000	120,000	-
Cash contributions and grants	4,418,132	82,343	4,500,475	2,526,586
Interest	122,653	-	122,653	119,807
Investment income	1,966	-	1,966	3,400
Gain on sale of assets (loss)	1,251	-	1,251	(3,414)
Participation fees	236,049	-	236,049	339,413
Special events (less direct costs of \$506 and \$12,469)	3,294	-	3,294	8,406
Other revenue	179,918	-	179,918	212,675
Proceeds from insurance - contents	157,763	-	157,763	-
Loss on building damage - Hurricane Sally	(19,435)	-	(19,435)	-
Net assets released from restrictions	44,262	(44,262)	-	-
TOTAL REVENUE AND SUPPORT	11,667,260	158,081	11,825,341	11,582,945
EXPENSES				
Program services				
Missions	2,887,535	-	2,887,535	3,201,850
Thrift stores	4,604,161	-	4,604,161	5,395,208
Recycling center	901,123	-	901,123	1,352,350
Total program services	8,392,819	-	8,392,819	9,949,408
Supporting services				
General and administrative	987,356	-	987,356	1,246,790
Fundraising	614,510	-	614,510	759,032
Total supporting services	1,601,866	-	1,601,866	2,005,822
TOTAL EXPENSES	9,994,685	-	9,994,685	11,955,230
CHANGE IN NET ASSETS BEFORE GAIN ON NEW MARKET TAX CREDITS				
	1,672,575	158,081	1,830,656	(372,285)
Gain on new market tax credits	1,998,000	-	1,998,000	-
CHANGE IN NET ASSETS	3,670,575	158,081	3,828,656	(372,285)
NET ASSETS, BEGINNING OF YEAR	11,445,337	56,229	11,501,566	11,873,851
NET ASSETS, END OF YEAR	\$ 15,115,912	\$ 214,310	\$ 15,330,222	\$ 11,501,566

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

YEAR ENDED DECEMBER 31, 2020
(With comparative totals for 2019)

	Missions	Thrift Stores	Recycling Center	Total Program Services	General and Administrative	Fund Raising	Total Supporting Services	Total Expenses 2020	Total Expenses 2019
Accounting and legal	\$ 12,283	\$ -	\$ -	12,283	58,371	5,750	64,121	\$ 76,404	\$ 70,484
Advertising	158	91,444	-	91,602	1,256	110,610	111,866	203,468	334,374
Bank charges	80	10,470	18	10,568	16,482	63	16,545	27,113	30,013
Banquets	175	-	-	175	275	-	275	450	378
Contracted services	68,536	112,487	59,445	240,468	25,191	28,963	54,154	294,622	269,460
Convention travel	730	14,339	321	15,390	2,885	1,496	4,381	19,771	46,924
Credit card	1,709	78,073	254	80,036	-	11,545	11,545	91,581	119,165
Depreciation	336,509	111,229	17,818	465,556	25,541	-	25,541	491,097	496,073
Direct mail	-	-	-	-	-	342,938	342,938	342,938	439,066
Donations in-kind	220,285	6,725	1,872	228,882	-	-	-	228,882	450,003
Donations to others	-	622	-	622	19,388	-	19,388	20,010	22,397
Drug free program	2,041	7,416	1,377	10,834	39	-	39	10,873	15,184
Dues and subscriptions	3,099	4,403	-	7,502	6,713	2,277	8,990	16,492	22,133
Education and training	1,560	296	-	1,856	116	115	231	2,087	14,181
Emergency disaster work	169,125	17,540	62	186,727	47,834	-	47,834	234,561	-
Insurance	102,272	255,902	38,231	396,405	10,623	-	10,623	407,028	412,374
Interest	638,417	3,550	20,815	662,782	2,480	-	2,480	665,262	318,420
Janitorial	25,529	22,304	1,054	48,887	531	-	531	49,418	97,275
Meals	3,717	2,667	62	6,446	1,034	341	1,375	7,821	22,631
Medical	287	-	-	287	-	-	-	287	1,074
Personnel benefits	105,853	200,303	47,979	354,135	77,552	3,240	80,792	434,927	493,252
Personnel costs	778,896	2,723,340	459,365	3,961,601	590,759	84,102	674,861	4,636,462	6,109,293
Postage	79	30	-	109	2,849	13,259	16,108	16,217	23,025
Rent	54,588	403,119	4,201	461,908	30,010	-	30,010	491,918	577,874
Repairs and maintenance	83,449	148,093	25,690	257,232	37,382	5,427	42,809	300,041	295,294
Supplies and small equipment	28,250	61,061	4,885	94,196	2,647	176	2,823	97,019	149,588
Sustenance	25	-	-	25	-	-	-	25	6,635
Taxes and licenses	3,741	4,129	1,364	9,234	430	3,408	3,838	13,072	17,932
Telephone	27,815	38,400	7,480	73,695	19,231	707	19,938	93,633	95,605
Utilities	194,295	283,100	15,990	493,385	7,709	-	7,709	501,094	634,097
Vehicles	24,032	3,119	192,840	219,991	28	93	121	220,112	371,026
Total	\$ 2,887,535	\$ 4,604,161	\$ 901,123	\$ 8,392,819	\$ 987,556	\$ 614,510	\$ 1,601,866	\$ 9,994,685	\$ 11,955,230

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

CONSOLIDATED STATEMENT OF CASH FLOWS
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS
YEAR ENDED DECEMBER 31, 2020
(With comparative totals for 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,828,656	\$ (372,285)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Merchandise contributed for sale, net	(6,139,856)	(7,728,245)
Sales of contributed merchandise	6,175,662	7,695,755
In-kind stock donation	(8,683)	(2,329)
In-kind property donation	-	(63,000)
Depreciation	491,097	496,073
Amortization of loan costs	398,653	30,864
Unrealized gain on investments	956	-
Gain on sale of property and equipment	(1,251)	3,414
Gain on new market tax credit transaction	(1,998,000)	-
Gain on insurance proceeds - contents	(157,763)	-
Loss on property damage - Hurricane Sally	19,435	-
(Increase) decrease in operating assets:		
Accounts receivable	(9,867)	(9,858)
Contributions receivable	(82,000)	-
Pledges receivable	(80,000)	40,000
Inventory of purchased goods	(32,649)	16,307
Prepaid expenses	96,016	182,952
Increase (decrease) in operating liabilities:		
Accounts payable	(93,885)	(41,460)
Accrued liabilities	(25,387)	38,852
Accrued compensated absences	(90,387)	33,485
Deferred revenues	1,322	(5,459)
Net cash provided by operating activities	2,292,069	315,066
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments, net	(3,089)	(5,709)
Purchase of property and equipment	(70,347)	(180,389)
Payments for construction in progress	(105,443)	-
Proceeds from insurance claim	676,784	-
Proceeds from sale of property and equipment	1,251	1,650
Proceeds from sale of stock	2,730	2,329
Net cash provided by (used in) investing activities	501,886	(182,119)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	1,422,017	-
Payments on long-term debt	(396,833)	(376,872)
Net cash provided by (used in) financing activities	1,025,184	(376,872)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,819,139	(243,925)
Cash and cash equivalents, beginning of year	2,288,553	2,532,478
Cash and cash equivalents, end of year	\$ 6,107,692	\$ 2,288,553

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE A - ORGANIZATION AND PURPOSE OF OPERATIONS

Waterfront Rescue Mission, Inc. (the Mission) was founded in 1949 as a Florida nonprofit organization. The Mission provides rehabilitative services to indigent people and those suffering from substance abuse and other life-dominating issues. Healing and restoration are the goals of this Bible-based model that promotes self-sufficient, productive members of the community in the states of Florida and Alabama.

The Mission's main programs include the missions, the thrift stores, and the recycling center. The Mission has several programs to achieve its goals. Through the Career Development Program, the Mission helps men and women enroll in local colleges, universities, and vocational schools, and also assists in procuring jobs to help ensure clients are equipped to become and remain productive members of society. The Mission's Veterans Program serves homeless military Veterans by coordinating with the U.S. Department of Veterans Affairs to provide guidance in obtaining benefits and affordable housing. The Mission's Respite Care program offers a safe environment with hospital beds for ill or injured homeless men to recuperate. The Mission's Day Resource Center provides services to help indigent men, women, and children with job searches, mail and phone services, storage lockers, clothing, recreational activities, spiritual counseling, and also provides meals and laundering and shower provisions. In addition, through the Mission's various sites and programs, men and women are offered literacy programs, if needed, and they learn fundamental computer skills. They also have the opportunity to learn valuable work skills such as forklift certification, merchandising, production, register training, customer services, and cooking. In-kind donations processed and resold through the Mission's supporting thrift stores ministry affords shoppers within the Missions' communities (Pensacola, Fort Walton, Crestview, Milton, Foley, Cantonment, Gulf Breeze, and Mobile) to purchase affordable, high-quality clothing, shoes, household goods, and gently-used home furnishings at exceptional values. The Mission's recycling and donation center processes, on average, 1,650 tons of in-kind donated recyclable materials annually. Materials are donated on-site and collected from thrift stores as an intentional effort to reduce the local environmental impacts caused by the over usage of area landfills. Salvaged materials are resold at current market values. The management and staff of the thrift stores and the recycling and donation center work closely with program clients and employees to improve environmental awareness and to provide job skills training as they model Christian integrity, strong work ethic, and stewardship as an investment back into the community. The Mission is also a member of the Association of Gospel Rescue Missions and the Evangelical Council for Financial Accountability.

Waterfront Rescue Mission Foundation, Inc. (the Foundation) was created in 1995 to assure preservation of the Mission's assets, and to meet other long-term financial needs of the Mission. The Foundation holds and invests funds contributed to it by the Mission and administers certain private contributions and endowment funds received to support the purpose of the Mission. The Foundation's revenue and net assets are summarized in the consolidating schedules.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE A - ORGANIZATION AND PURPOSE OF OPERATIONS (Continued)

In November 2013, the Mission entered into a New Market Tax Credit (NMTC) transaction, as outlined in Internal Revenue Code (IRC) Section 45D, to help finance the construction of its new Mobile Mission Homeless Campus. WRM QALICB, LLC (WRM QALICB) was formed in October 2013 under the laws of Alabama in order to meet the necessary structuring requirements to qualify for the NMTC transaction. WRM QALICB holds the Mobile property and is leased back to the Mission for the sole purpose of operations and furthering its mission to aid the homeless. (See Note L for a further discussion of the NMTC financing.) The WRM QALICB's revenue and net assets are summarized in the consolidating schedules. Subsequent to year end, the WRM QALICB sold the property back to the Mission and was dissolved.

The Mission and the Foundation are affiliated nonprofit organizations by virtue of the fact that they share a common board of directors. Furthermore, the Mission has an 89% ownership interest in the WRM QALICB. Therefore, the accompanying financial statements of these three affiliated organizations are presented on a consolidated basis (the Organization).

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Principles of Consolidation - The consolidated financial statements include the accounts of Waterfront Rescue Mission, Inc., the Waterfront Rescue Mission Foundation, Inc., and the Mission's majority-owned for-profit limited liability company, WRM QALICB (collectively, the Organization). All material related party transactions have been eliminated in consolidation.
2. Basis of Accounting - The Organization prepares its financial statements on the accrual basis of accounting, following accounting principles generally accepted in the United States of America for nonprofit organizations.
3. 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 the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Basis of Presentation - The Organization is required by the *Financial Statements of Not-for-Profit Organizations* topic of the FASB Accounting Standard Codification to report information regarding its financial position and activities according to two classes of net assets:

Without donor restrictions - not subject to donor-imposed stipulations.

With donor restrictions - subject to donor-imposed stipulations.

5. Cash and Cash Equivalents - For the purpose of the consolidated statements of cash flows, the Organization considers highly liquid investments with an original maturity of three months or less to be cash equivalents.
6. Accounts Receivable - Trade accounts receivable represents amounts due from sales in the Organization's recycling program and are presented net of an allowance for doubtful accounts. The Organization estimates the allowance based on historical experience, coupled with a review of the current status of existing receivables. Trade accounts receivable balances will be written off in the period management deems they are uncollectible. Recoveries of trade receivables previously written off will be recorded in revenue when received. Management has evaluated the receivables and considered them to be fully collectible. Accordingly, there was no allowance for doubtful accounts at December 31, 2020.
7. Pledges Receivable - Unconditional promises to give (pledges) are recognized in the period that notification is received. The pledges are recorded as revenue and net assets with donor restrictions. Pledges are discounted, using a market discount rate, to present value for collections expected in future years. Accretion of the discount in subsequent years is also recorded as contribution revenue. The Organization did not apply a discount to the pledge receivable balance at December 31, 2020.

Pledges receivable are stated net of an allowance for uncollectible pledges. The Organization estimates the allowance based on an analysis of specific donors, taking into consideration the age of past due amounts and an assessment of the donor's ability to pay. Management has evaluated the pledges receivable and considered them to be fully collectible. Accordingly, there was no allowance for doubtful accounts for pledges receivable at December 31, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Contributed Merchandise - Inventories of clothing and other merchandise donated to the Mission for sale through the thrift stores and use in the Mission's program services are recorded at estimated net realizable value. The value of inventory on hand in the thrift stores is estimated using the subsequent sales method. That inventory method uses inventory turnover statistics and sales subsequent to year end to estimate inventory at December 31, 2020. The value of warehouse goods is estimated based on the average weight, by type, of merchandise. Because of the inherent uncertainties in estimating the net realizable value of contributed merchandise, it is at least reasonably possible that the estimates used will change in the near term.
9. Purchased Goods Merchandise - Inventories of merchandise purchased for resale are valued at lower of cost (first in-first out) or market.
10. Fair Value Measurement - Investments are measured at fair value by the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; Level 3 inputs consist of significant unobservable inputs and have the lowest priority.

When available, the Organization measures fair value using Level 1 inputs, because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. The Organization used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value in the consolidated financial statements:

Investments in debt securities and certain equity securities are measured at fair value using Level 1 inputs. Gains and losses on investments are reported as increases or decreases in net assets without donor restriction unless their use is restricted by the donor, and dividend, interest, and other investment income is reported in the period earned as increases in net assets without donor restriction unless donor-imposed restrictions apply.

The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Changes in the value of remeasurement are recorded in the period remeasured.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. Note Receivable - Note receivable represents funds advanced to Waterfront QEI, LLC to facilitate the NMTC financing (See Note G). The receivable is carried at the unpaid principal balance, and interest income is recognized over the life of the receivable using the stated fixed rate. On a periodic basis, the Organization evaluates its receivables and adjusts the allowance for loan losses, when deemed necessary, based on a historic review of collections and current credit conditions. There was no allowance for note receivable losses at December 31, 2020.
12. Land, Buildings, and Equipment - Land, buildings, and equipment are stated at cost, or if donated, at the estimated fair market value on the date of the gift. It is the policy of the Organization to capitalize purchases of property and equipment in excess of \$5,000. Contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those assets must be maintained, the Organization reports expirations of donor restrictions when the acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Depreciation is provided on a straight-line method over the estimated useful lives of the assets, as follows:

Buildings and improvements	5 - 40 years
Furniture, fixtures, and equipment	4 - 10 years
Vehicles	3 - 5 years

13. Debt Issuance Costs - Debt issuance costs are reported on the statement of financial position as a direct deduction from the face amount of debt. The Organization reflects amortization of debt issuance costs as interest expense.
14. Contributions - Contributions are recorded depending on the existence and/or nature of any donor-imposed stipulations and/or restrictions.

All bequests are recorded as contributions to the Foundation, unless the donor specifies the gift should go directly to the Mission.

Contributions are recognized when the donor makes an unconditional promise to give. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

15. Donated Services and In-Kind Goods - Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

A number of unpaid volunteers have made significant contributions of their time to the Mission. The value of this contributed time is not reflected in these statements, since it does not meet the aforementioned criteria.

Significant amounts of food, clothing, furniture, appliances, and other merchandise are donated to the Mission. These donations are recorded at their estimated net realizable value. Most of the items donated are sold through the Mission's thrift stores. However, management estimates the value of "donations in-kind" used in the Mission's program services to feed, clothe, and otherwise assist indigent individuals for the year ended December 31, 2020 to be \$229,421, including \$2,828 of donated services. In-kind stock donations totaled \$8,683 for the year ended December 31, 2020.

16. Grants - The Organization records grant revenue over the period of the award and the provisions of the grant determine the timing of revenue recognition. Grant expenses are recognized when incurred. Amounts that have been awarded but not received are recorded as grants receivable.
17. Sublease Rental Income - Sublease rental income is recognized on a straight-line basis based on the aggregate minimum rental payments outlined in the lease agreements over the applicable lease terms.
18. Functional Allocation of Expenses - The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of functional expenses. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Some costs are allocated based on estimates by management.
19. Advertising Expense - The Organization uses advertising to promote its programs among the audiences they service. The production costs of advertising are expensed the first time the advertising takes place, including direct-response advertising. Advertising costs were \$203,468 for the year ended December 31, 2020.
20. Comparative Financial Information - The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2019 from which the summarized information was derived.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certain accounts and activities in the prior year have been reclassified to conform to the presentation in the current year financial statements.

21. Tax Exemptions - The Mission and the Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and comparable state laws, and are exempt from federal income taxes other than income from certain activities not directly related to their tax-exempt purpose. Neither the Mission nor the Foundation had any unrelated business income for the year ended December 31, 2020. In addition, the Mission and the Foundation qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations other than a private foundation under Section 509(a)(2).

The WRM QALICB files a separate partnership income tax return. The partnership income tax return reports the NMTC transaction as a sale-leaseback.

The Organization follows the accounting standard for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest, and penalties on income taxes, and accounting in interim periods. The Organization believes that any tax positions it has taken or expects to take that are more-likely-than-not sustainable, as described in the Codification, would not be material to the financial statements taken as a whole. Accordingly, no liability has been provided for unrecognized tax benefits, nor has any interest or penalty been accrued at December 31, 2020.

The Organization's information and tax returns for the years ended December 31, 2018 through 2020 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

22. Recent Financial Accounting Pronouncements - In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by leases with lease terms of more than twelve months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will continue to primarily depend on its classification as a finance or operating lease. However, unlike current U.S. GAAP, which requires only capital leases to be recognized on the statement of financial position, ASU 2016-02 will require both types of leases to be recognized on the statement of financial position. ASU 2016-02 also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. This standard is effective for fiscal periods beginning after December 15, 2021. The Company plans to adopt this ASU for its year ending December 31, 2022.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance will require changes in the method and timing of recognition of certain contract revenues and related expenses. This ASU and its amendments will supersede the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry specific guidance. For nonpublic entities, these amendments are effective for annual reporting periods beginning after December 15, 2020.

23. Events Occurring After the Reporting Date - The Waterfront Rescue Mission, Inc. has evaluated events and transactions that occurred between December 31, 2020 and August 4, 2021, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE C - CASH AND CASH EQUIVALENTS

Cash and cash equivalents were comprised of the following as of December 31, 2020:

Interest bearing accounts	\$ 2,619,943
Non-interest bearing accounts	3,475,099
Cash on hand	<u>12,650</u>
	<u>\$ 6,107,692</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE D - INVESTMENTS

Cost, fair value, and unrealized gains (losses) for assets held as investments are summarized as follows:

	<u>Fair Value</u>	<u>Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Trading investments	<u>\$ 30,857</u>	<u>\$ 30,857</u>

Fair value of assets measured on a recurring basis at December 31, 2020, were as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gains (Losses)</u>
Trading investments	<u>\$ 30,086</u>	<u>\$ 30,857</u>	<u>\$ 771</u>

There were no Level 3 inputs at December 31, 2020.

NOTE E - SUPPLEMENTAL CASH FLOW INFORMATION

The Organization paid \$266,064 in interest during the year ended December 31, 2020. During 2020, the Organization received in-kind stock donations totaling \$8,683. The Organization also refinanced two loans during the year.

NOTE F - PLEDGES RECEIVABLE

Pledges receivable of \$120,000 at December 31, 2020 consist of unconditional promises to give from individuals and private foundations. These contributions are restricted; \$40,000 is receivable in less than one year; \$80,000 is receivable in one to five years. No discount has been applied to the pledges receivable balance at December 31, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE G - NOTE RECEIVABLE

In order to facilitate the NMTC financing, the Mission made a loan (the leverage loan) to Waterfront QEI, LLC in the amount of \$5,277,000, bearing interest at 2.205578% per annum. Monthly, interest-only payments in the amount of \$9,699 were due beginning November 2013 through December 2020. The note was secured by a forbearance agreement and the ownership interest in the SCC Sub-CDE1, LLC. During 2020, the Mission exercised its "put right" at which time the leverage fund assumed the new market tax credit loans of \$7,275,000 in exchange for the outstanding principal on the note receivable of \$5,277,000. A gain of \$1,998,000 on the exercise of the new market tax credit "put option" was recognized. (See Note L for a further discussion of the NMTC financing.)

Interest income received on the note receivable for the year ended December 31, 2020 was \$116,388.

The Mission's note receivable was pledged as collateral in connection with the note payable to Trustmark (See Note J).

NOTE H - LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment owned by the Organization at December 31, 2020 were as follows:

Land	\$	2,843,649
Buildings and improvements		13,273,986
Leasehold improvements		42,261
Furniture, fixtures, and equipment		1,937,242
Vehicles		<u>555,915</u>
		18,653,053
Less accumulated depreciation		<u>(6,512,219)</u>
	\$	<u>12,140,834</u>

Depreciation expense for the year ended December 31, 2020 was \$491,097.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE I - FINANCIAL ASSETS AVAILABLE FOR GENERAL EXPENDITURES

The following reflects the Organization's financial assets as of December 31, 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of December 31, 2020. However, amounts already appropriated from the donor-restricted endowment for general expenditure within one year of December 31, 2020 have not been subtracted as unavailable.

Financial assets, at year-end	\$ 6,359,837
Less those unavailable for general expenditures within one year, due to:	
Subject to satisfaction of donor restrictions	<u>(214,310)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 6,145,527</u>

The Organization at times receives restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Occasionally, the board designates a portion of any operating surplus to its liquidity reserve.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE J - NOTES PAYABLE

The Organization's notes payable as of December 31, 2020 are as follows:

The Mission:

Note to Trustmark, including interest at 5.00%, monthly principal and interest payments of \$15,816 maturing March 2021, cross-collateralized by all the Mission's assets inside Mobile County, Alabama, the leverage loan, and the Mission's interest in the WRM QALICB, with a net book value of \$5,590,791	\$ 861,089
Less, New Market Tax Credit unamortized debt issuance costs	(4,997)
Note to Trustmark, including interest at 5.75%, monthly principal and interest payments of \$1,706 maturing April 2021, cross-collateralized by all the Mission's assets inside Mobile County, Alabama, the leverage loan, the Mission's ownership interest in the WRM QALICB, and assignment of subleases and rents on the Mobile Mission Homeless Campus, with a net book value of \$5,590,791	153,672
Note to bank, monthly payments of \$2,343, including interest at 4.95% through November 2021, collateralized by real property in Escambia County and rents with a net book value of \$498,834	362,871
Less, unamortized debt issuance costs	(4,813)
PPP note to bank, monthly payments of \$71,526, including interest at 1.00% through May 2024; forgiven in full subsequent to year end	<u>1,272,017</u>
	<u>\$ 2,639,839</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE J - NOTES PAYABLE (Continued)

A schedule of maturities of the notes payable is as follows:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2021	\$ 2,226,130
2022	413,709
2023	-
2024	-
2025	-
Thereafter	-
	<u>\$ 2,639,839</u>

Interest expense related to the notes payable for the year ended December 31, 2020 was \$665,262, including loan amortization of \$402,584.

The Mission received an SBA loan for \$1,272,017 in May 2020. The interest rate is 1%. The term of the loan is 24 months with the first 6 months of principal and interest payments deferred with interest accruing. The loan is made pursuant to the Paycheck Protection Program as part of the Coronavirus Aid, Relief, and Economic Security Act. The loan was forgiven, in full, in May 2021.

The Mission received an SBA Economic Injury Disaster Loan (EIDL) loan totaling \$150,000 and \$10,000 for EIDL grant in April 2020. The EIDL loan was paid back, in full, in November 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE K - CONTINGENT NOTES PAYABLE

The Federal Home Loan Bank Atlanta advanced Affordable Housing Program funds to the Organization in the amount of \$1,000,000 for the construction of the Pensacola Mission. The award was recognized by a note which was formally executed September 28, 2012, for this amount, and is secured by the Herman Street building, including all attached real property and improvements with a net book value of \$3,647,660. In addition, the ground lease has also been assigned. These funds were awarded in conjunction with the loan, dated February 14, 2012, for \$1,000,000 with a financial institution.

During 2014, the Federal Home Loan Bank Atlanta advanced Affordable Housing Program funds to the Organization in the amount of \$225,243 for the construction of the Mobile Mission. The award was recognized by a note which was formally executed October 25, 2012, for this amount, and is secured by the Mobile Mission building, including all attached real property and improvements with a net book value of \$5,571,860. These funds were awarded in conjunction with the loan, dated September 15, 2014, for \$225,243 with a financial institution.

In the event of default of any terms or obligations pursuant to the notes, including the sale, conveyance, transfer, or assignment of any interest in the properties referred to in the notes or the failure of the Organization to comply with the occupancy restrictions and conditions specified in the notes, the total principal balances will be due and payable.

If the Organization is not in default of any terms or obligations of the note within fifteen years, the entire principal balance shall be forgiven on the fifteenth anniversary of the note. The note is noninterest bearing. The balance of the contingent notes payable for the Pensacola Mission and the Mobile Mission were \$1,000,000 and \$225,243, respectively, at December 31, 2020.

NOTE L - NEW MARKET TAX CREDIT FINANCING

In November 2013, the Mission entered into a New Market Tax Credit (NMTC) transaction to help finance the construction of the Mobile Mission Homeless Campus.

The NMTC Program was designed to stimulate investment and economic growth in low-income communities by offering a seven-year, 39% federal tax credit for Qualified Equity Investments (QEI) made through investment vehicles known as Community Development Entities (CDE). CDE's use capital derived from tax credits to make loans for investments in businesses and projects in low-income areas.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE L - NEW MARKET TAX CREDIT FINANCING (Continued)

In order to facilitate the NMTC financing, the Mission was obligated to provide the leverage loan to WRM QEI, LLC in the amount of \$5,277,000. (See Note G for a further description of the note receivable.) In order to fund the leverage loan, the Mission obtained three loans from Trustmark. First, a loan in the amount of \$2,000,000 with a term of seven years was obtained. The second was a loan in the amount of \$600,000 with a term of one year. The third loan was a one-day loan to temporarily fund a portion of the leverage loan equal to the amount to be received by the Mission from the QALICB for the Mobile Mission property transfer. The one-day loan was repaid when the Mission received these funds after transfer. (See Note J for a further description of the notes payable.)

There were two separate promissory notes signed on November 26, 2013, to borrow a total of \$7,275,000 from SCC Sub-CDE1, LLC (the CDE for the project). The Mission exercised its "put right" in 2020, and as a result the leverage fund assumed the new market tax credit loans of \$7,275,000 in exchange for the outstanding principal of \$5,277,000 on the note receivable from the leverage fund. A gain of \$1,998,000 on the exercise of the new market tax credit "put option" was recognized.

Neither the Mission nor WRM QALICB controls or has an economic interest in the assets of either QEI or the CDE. The QEI is controlled and partially financed by Trustmark National Bank and the QEI controls and funds the CDE.

To earn the tax credit, the QEI must have remained invested in the CDE for a seven-year period ended in November 2020. The Mission and Trustmark had entered into a put/call option agreement that took place at the end of the seven-year period. Under the agreement, Trustmark exercised a put option to sell all interest in the QEI for \$1,000 to the Mission. Additionally, the WRM QALICB Operating Agreement gives the Mission an option to acquire the remaining 11% interest of the WRM QALICB for the fair market value after seven years.

NOTE M - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31, 2020:

Pledges receivable	\$	120,000
Contributions receivable		82,000
Respite dorm equipment and supplies		5,579
Other purposes		<u>6,731</u>
	\$	<u>214,310</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE N - CHANGES IN CONSOLIDATED NET ASSETS

Changes in the consolidated net assets relating to the Mission and affiliates for the year ended December 31, 2020 are as follows:

	<u>Mission</u>	<u>Foundation</u>	<u>WRM QALICB</u>	<u>Eliminating Entries</u>	<u>Total</u>
Net assets without donor restrictions:					
Balance, December 31, 2019	\$ 12,388,660	\$ 1,353,348	\$ (1,465,524)	\$ (831,147)	\$ 11,445,337
Changes in net assets without donor restrictions	<u>(2,725,647)</u>	<u>(295,623)</u>	<u>6,419,148</u>	<u>272,697</u>	<u>3,670,575</u>
Balance, December 31, 2020	<u>\$ 9,663,013</u>	<u>\$ 1,057,725</u>	<u>\$ 4,953,624</u>	<u>\$ (558,450)</u>	<u>\$ 15,115,912</u>
	<u>Mission</u>	<u>Foundation</u>	<u>WRM QALICB</u>	<u>Eliminating Entries</u>	<u>Total</u>
Net assets with donor restrictions:					
Balance, December 31, 2019	\$ 56,229	\$ -	\$ -	\$ -	\$ 56,229
Changes in net assets with donor restrictions	<u>158,081</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>158,081</u>
Balance, December 31, 2020	<u>\$ 214,310</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,310</u>

NOTE O - GRANT REVENUE

The Mission was awarded a grant to provide services for the homeless totaling \$40,150 for the period of July 2019 through June 2020 and \$40,150 for the period of July 2020 through June 2022.

NOTE P - OTHER REVENUE

The Mission's meals revenue is included in other revenue on the statement of activities in the amount of \$7,797, net of direct costs of \$7,797.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE Q - SUBLEASE RENTAL INCOME

The Mission signed an initial one-year lease agreement in March 2010 for the North McKenzie Street property in Foley, Alabama for \$2,500 per month. The lease has been renewed several times and currently requires a monthly rental of \$2,000; this lease is now month-to-month.

The Mission entered into a sublease agreement in November 2013 for the Mobile Mission Homeless Campus. The lease commenced January 1, 2014 and expires on December 31, 2024. The subtenant is leasing approximately 7,500 square feet. Rent is \$6,331 due monthly, with standard incremental increases during the term of the lease. In addition, the subtenant also agreed to pay the Mission for additional monthly rent for utilities used by the subtenant on the leased properties. The initial additional rental amounts to \$2,100 per month, to be reviewed on an annual basis. The sublease was pledged as collateral in connection with the note payable to Trustmark (See Note J).

In September 2015, the Mission entered into a two-year agreement for the West Fairfield Drive property in Pensacola, Florida, ending in August 2017, for \$1,200 per month. The lease was renewed for one year, ending August 2018, for \$1,350 per month; the lease is now month-to-month at \$1,500 per month.

In February 2014, the Mission also entered into a two-year sublease agreement for the Herman Street Day Resource Center with Escambia County Community Clinics, commencing in March 2014 and expired February 2016 and is on a month-to-month basis. The subtenant is leasing approximately 540 square feet. Rent of \$314 is due monthly, with standard incremental increases each renewal term.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE Q - SUBLEASE RENTAL INCOME (Continued)

Future minimum sublease payments remaining to be received on the agreements are as follows:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2021	\$ 101,172
2022	101,172
2023	101,172
2024	101,172
2025	-
Thereafter	-
	<u>\$ 404,688</u>

The following is a summary of the leased property in service at December 31, 2020:

Land	\$ 93,741
Land improvements	12,156
Buildings and improvements	1,563,148
Equipment	<u>1,980</u>
	1,671,025
Less accumulated depreciation	<u>(317,880)</u>
	<u>\$ 1,353,145</u>

Rental revenue and expenses for the year ended December 31, 2020 were as follows:

Revenues	\$ 154,811
Expenses	
Depreciation	40,125
Insurance	13,012
Repairs and maintenance	9,738
Utilities	<u>19,281</u>
	<u>82,156</u>
Net rental income	<u>\$ 72,655</u>

Rental income is included in other revenue in the statement of activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE R - OPERATING LEASES

In 2010, the Organization entered into a ground lease in Pensacola under a fifty-year operating lease requiring annual rental payments of \$43,200, with annual increases of \$100 per month, and an option to purchase at the end of the lease period. Rent expense for the year ended December 31, 2020 for this land was \$54,000.

In 2011, the Organization entered into a lease for a facility in Cantonment under a three-year operating lease requiring annual rental payments of \$24,000, with annual increases of 3%. In addition, as a part of the lease, the Mission is required to pay additional common area maintenance charges. This lease was renewed during 2014 for an additional three years requiring annual rental payments of \$26,225; and renewed during 2017 for an additional three years requiring annual rental payments of \$36,552. The lease expired during 2020. Rent expense for the year ended December 31, 2020 for this facility was \$22,372.

In 2012, the Organization entered into a lease for a facility in Gulf Breeze under a two-year operating lease requiring annual rental payments of \$30,000. This lease was renewed during 2014 for an additional three years requiring annual rental payments of \$42,000; and renewed during 2017 for an additional three years requiring annual rental payments of \$44,400 and is now a month-to-month lease. Rent expense for the year ended December 31, 2020 for this facility was \$44,400.

In 2013, as part of the NMTC transaction discussed in Note A, WRM QALICB entered into an agreement to lease the Mobile Mission Homeless Campus to the Mission to conduct its operations, under a thirty-year operating lease ending in 2043. The annual base lease payments amount to \$228,360 in 2014, with an annual 2.5% increase through 2043. Also, as part of the agreement, the Mission is required to pay an additional rent expense in excess of the expense floor each year. The expense floor for the calendar year December 31, 2014 is \$100,000, with an annual 4% increase until 2020. After 2020, the expense floor drops to zero, and the expense reimbursement amount will equal the total expenses. The related rent revenues and expenses are eliminated upon consolidation.

The Organization leased five vehicles during 2020. Rent expense for the year ended December 31, 2020 for these vehicles was \$83,688. The leases on the vehicles expire in April 2021 for one of the vehicles, in August 2022 for one of the vehicles, and in June 2026 for three of the vehicles.

During May 2016, the Organization sold property in Fort Walton Beach and leased back the property to continue operations of the thrift store. The lease for the facility is under a five-year operating lease requiring annual rental payments of \$184,032 with two five-year renewal periods available. Rent expense for the year ended December 31, 2020 was \$160,356 as a discount was provided during the year due to COVID-19.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE R - OPERATING LEASES (Continued)

In 2018, the Organization entered into a lease for a facility in Mobile under a five-year operating lease requiring annual rental payments of \$224,256 beginning March 2019, expiring 2024. Rent expense for the year ended December 31, 2020 was \$170,750 as a discount was provided for the year due to COVID-19.

At December 31, 2020, the Organization was obligated for minimum rental payments under non-cancelable operating leases having remaining terms in excess of one year for each of the next five years and in the aggregate as follows:

Year Ending December 31,	Amounts
2021	\$ 428,506
2022	341,663
2023	331,457
2024	144,577
2025	107,201
Thereafter	1,876,100
	<u>\$ 3,229,504</u>

The equipment and software used in operations is rented on a month-to-month or as needed basis.

NOTE S - CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Organization to concentrations of credit risk, include cash in banks and certificates of deposit in excess of federally insured limits. The Organization manages this risk by maintaining its cash in various high-quality financial institutions. The funds in these accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The uninsured cash balance was \$4,967,439 at December 31, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE T - COMMITMENTS, CONTINGENCIES, AND RISKS

As indicated in Note L, the WRM QALICB received NMTC funds to assist with financing the construction of the Mobile Mission Homeless campus. As a part of the agreements, the Mission was required to maintain status as a qualified active low-income community business, as defined in IRC Section 45D. The Mission and the WRM QALICB entered into an indemnification agreement with Trustmark, in the event a NMTC recapture event occurs due to violation or disallowance. If such an event occurs, the Mission is liable to compensate Trustmark up to the full amount of the recapture and/or lost credits, including penalties and interest. In the opinion of the Organization, no such disallowance or recapture event has occurred. During 2020, the Mission exercised its “put right” to initiate the wind down of the NMTC transaction.

Also, in connection with the NMTC transaction discussed in Note L, the Organization could be exposed to an unfavorable call option result.

NOTE U - PENSION PLAN

All of the full-time employees of the Organization who have attained 21 years of age are covered under a defined contribution pension plan. Employees are permitted to contribute to the plan on a pre-tax basis. The Organization contributes matching contributions, at the Organization’s discretion. Employees are also allowed to make post-tax contributions under a Roth-403(b). The Organization did not contribute to the Plan for the year ended December 31, 2020.

NOTE V - HURRICANE

During September of 2020, Hurricane Sally hit the Gulf Coast and caused severe damage to the Organization’s Pensacola buildings.

The Organization recognized insurance proceeds for building contents in the amount of \$157,763 for the year ended December 31, 2020. The building is still under repair and therefore not all contents have not yet been purchased as of the date of the financial statements. The contents destroyed were fully expensed and had no basis as of the date Hurricane Sally hit and the total amount of the insurance proceeds is considered a gain for the year ended December 31, 2020. The Organization plans to purchase remaining replacement contents during 2021; the contents will be expensed or capitalized, as appropriate, in 2021 in accordance with the Organization’s capitalization policy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE V - HURRICANE (Continued)

The Organization recognized a loss on the property destroyed by Hurricane Sally in the amount of \$19,435 for the year ended December 31, 2020. The buildings were estimated to have been damaged as follows; 348 Herman Street 13% damaged; 350 Herman Street 29% damaged; 380 Herman Street 23% damaged; and 388 Herman Street 3% damaged. The related net book value of the damaged properties as of the date of the Hurricane totaled \$538,456. The building insurance proceeds totaled \$519,021, all received during 2020. Substantial work was done during 2020 to rebuild and repair the buildings, which is included as construction in progress totaling \$105,443 at December 31, 2020, and repairs and remedy expenses totaling \$234,561 for the year ended December 31, 2020. The Organization was responsible for the insurance deductibles totaling \$17,011.

ADDITIONAL INFORMATION

INDEPENDENT AUDITOR'S REPORT
ON ADDITIONAL INFORMATION

To the Board of Directors
Waterfront Rescue Mission, Inc.
and Affiliated Organizations
Pensacola, Florida

We have audited the consolidated financial statements of Waterfront Rescue Mission, Inc. (a nonprofit organization) and Affiliated Organizations for the year ended December 31, 2020, and our report thereon dated August 4, 2021, which expresses an unmodified opinion on those financial statements appears on pages 2 - 3. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The additional information on pages 32 - 36 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Brown Thornton Pacenta & Company, P.A.

Pensacola, Florida
August 4, 2021

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS
DECEMBER 31, 2020

	<u>ASSETS</u>				
	<u>Mission</u>	<u>Foundation</u>	<u>WRM QALICB</u>	<u>Eliminating Entries</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 4,979,081	\$ 1,057,725	\$ 70,886	\$ -	\$ 6,107,692
Accounts receivable	50,145	-	-	-	50,145
Contribution receivable	82,000	-	-	-	82,000
Intercompany receivables	4,783	-	-	(4,783)	-
Pledges receivable, net	120,000	-	-	-	120,000
Contributed merchandise inventory	912,442	-	-	-	912,442
Purchased merchandise inventory	59,359	-	-	-	59,359
Prepaid expenses and deposits	198,186	-	26,866	-	225,052
Investments	231,107	-	-	(200,250)	30,857
Note receivable	-	-	-	-	-
Construction in progress	105,443	-	-	-	105,443
Land, buildings, and equipment, net	<u>7,635,126</u>	<u>-</u>	<u>4,863,908</u>	<u>(358,200)</u>	<u>12,140,834</u>
Total assets	<u>\$ 14,377,672</u>	<u>\$ 1,057,725</u>	<u>\$ 4,961,660</u>	<u>\$ (563,233)</u>	<u>\$ 19,833,824</u>
<u>LIABILITIES AND NET ASSETS</u>					
LIABILITIES					
Accounts payable	\$ 141,009	\$ -	\$ 3,253	\$ -	\$ 144,262
Accrued liabilities	211,759	-	-	-	211,759
Intercompany payables	-	-	4,783	(4,783)	-
Accrued compensated absences	224,018	-	-	-	224,018
Notes payable, net	2,639,839	-	-	-	2,639,839
Contingent note payable	1,225,243	-	-	-	1,225,243
Deposits payable	12,043	-	-	-	12,043
Deferred revenues	<u>46,438</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,438</u>
Total liabilities	4,500,349	-	8,036	(4,783)	4,503,602
NET ASSETS					
Without donor restrictions	9,663,013	1,057,725	4,953,624	(558,450)	15,115,912
With donor restrictions	<u>214,310</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>214,310</u>
Total net assets	<u>9,877,323</u>	<u>1,057,725</u>	<u>4,953,624</u>	<u>(558,450)</u>	<u>15,330,222</u>
Total liabilities and net assets	<u>\$ 14,377,672</u>	<u>\$ 1,057,725</u>	<u>\$ 4,961,660</u>	<u>\$ (563,233)</u>	<u>\$ 19,833,824</u>

See independent auditor's report on additional information.

CONSOLIDATING SCHEDULE OF ACTIVITIES
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS
YEAR ENDED DECEMBER 31, 2020

	Mission	Foundation	WRM QALICB	Eliminating Entries	Total
CHANGES IN NET ASSETS					
REVENUE AND SUPPORT					
Sales of purchased merchandise (less cost of \$218,511)	\$ 143,448	\$ -	\$ -	\$ -	\$ 143,448
Merchandise contributed for sale (less cost of recyclables of \$10,526)	6,139,856	-	-	-	6,139,856
Donated services and in-kind goods	238,103	-	-	-	238,103
Pledges revenue	120,000	-	-	-	120,000
Cash contributions	4,800,475	-	-	(300,000)	4,500,475
Interest	118,276	4,377	-	-	122,653
Investment income (loss)	1,966	-	-	-	1,966
Gain on sale of assets	1,251	-	-	-	1,251
Participation fees	236,049	-	-	-	236,049
Special events (less direct expenses of \$506)	3,294	-	-	-	3,294
Other revenue	179,918	-	270,377	(270,377)	179,918
Proceeds from insurance	138,328	-	-	-	138,328
TOTAL REVENUE AND SUPPORT	12,120,964	4,377	270,377	(570,377)	11,825,341
EXPENSES					
Program services					
Missions	2,304,380	-	1,126,229	(543,074)	2,887,535
Thrift stores	4,604,161	-	-	-	4,604,161
Recycling center	901,123	-	-	-	901,123
Total program services	7,809,664	-	1,126,229	(543,074)	8,392,819
Supporting services					
General and administrative	987,356	-	-	-	987,356
Fundraising	614,510	300,000	-	(300,000)	614,510
Total supporting services	1,601,866	300,000	-	(300,000)	1,601,866
TOTAL EXPENSES	9,411,530	300,000	1,126,229	(843,074)	9,994,685
CHANGE IN NET ASSETS BEFORE GAIN ON NEW MARKET TAX CREDIT	2,709,434	(295,623)	(855,852)	272,697	1,830,656
Gain on new market tax credits	(5,277,000)	-	7,275,000	-	1,998,000
CHANGE IN NET ASSETS	(2,567,566)	(295,623)	6,419,148	272,697	3,828,656
NET ASSETS, BEGINNING OF YEAR	12,444,889	1,353,348	(1,465,524)	(831,147)	11,501,566
NET ASSETS (DEFICIT), END OF YEAR	\$ 9,877,323	\$ 1,057,725	\$ 4,953,624	\$ (558,450)	\$ 15,330,222

See independent auditor's report on additional information.

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES - MISSIONS
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS
YEAR ENDED DECEMBER 31, 2020
(With comparative totals for 2019)

	Pensacola Mission	Mobile Mission	Transition Center	Recovery Center	Day Resource Center	Total Mission Expenses 2020	Total Mission Expenses 2019
Accounting and legal	\$ -	\$ 12,283	\$ -	\$ -	\$ -	\$ 12,283	\$ 3,267
Advertising	158	-	-	-	-	158	3,457
Bank Charges	4	76	-	-	-	80	110
Banquets	175	-	-	-	-	175	378
Contracted services	36,188	17,784	3,363	4,404	6,797	68,536	33,712
Convention travel	396	334	-	-	-	730	10,598
Credit cards	948	761	-	-	-	1,709	383
Depreciation	96,368	137,496	39,849	50,956	11,840	336,509	342,389
Direct mail	-	-	-	-	-	-	-
Donations in-kind	157,574	62,711	-	-	-	220,285	427,018
Donations to others	-	-	-	-	-	-	125
Drug free program	463	1,011	227	340	-	2,041	2,682
Dues and subscriptions	658	2,441	-	-	-	3,099	3,559
Education and training	480	600	480	-	-	1,560	12,115
Emergency disaster work	169,033	-	-	-	92	169,125	-
Insurance	40,924	51,993	4,805	2,919	1,631	102,272	109,084
Interest	1,875	636,161	138	197	46	638,417	288,928
Janitorial	9,712	8,479	2,775	4,163	400	25,529	73,161
Meals	1,487	1,892	111	227	-	3,717	16,240
Medical	95	117	26	39	10	287	760
Personnel benefits	59,014	24,669	8,735	13,077	358	105,853	118,665
Personnel costs	256,997	273,924	80,832	138,570	28,573	778,896	1,185,849
Postage	10	57	5	7	-	79	379
Rent	54,353	235	-	-	-	54,588	57,958
Repairs and maintenance	38,095	32,557	4,918	4,614	3,265	83,449	114,186
Supplies and small equipment	14,034	8,672	3,065	1,723	756	28,250	35,724
Sustenance	(1,185)	-	-	1,210	-	25	6,635
Taxes and licenses	2,693	680	368	-	-	3,741	3,291
Telephone	14,328	11,827	656	116	888	27,815	22,365
Uncollectible pledges	-	-	-	-	-	-	-
Utilities	92,841	62,825	18,060	16,467	4,102	194,295	259,406
Vehicles	10,623	8,592	1,948	2,869	-	24,032	69,426
Total	\$ 1,058,341	\$ 1,358,177	\$ 170,361	\$ 241,898	\$ 58,758	\$ 2,887,535	\$ 3,201,850

See independent auditor's report on additional information.

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES - THRIFT STORES
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

YEAR ENDED DECEMBER 31, 2020
(With comparative totals for 2019)

	Pensacola Thrift Store	Foley Thrift Store	Milton Thrift Store	Ft. Walton Thrift Store	Crestview Thrift Store	Cantonment Thrift Store	Gulf Breeze Thrift Store	Mobile Thrift Store	External Thrift Store	Online Thrift Store	Auto Vacations	Total Thrift Store Expenses 2020	Total Thrift Store Expenses 2019
Accounting and legal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Advertising	22,073	12,138	8,886	9,168	8,622	3,064	5,439	7,280	-	14,774	-	91,444	182,390
Bank charges	2,001	1,495	1,043	1,495	1,179	157	1,881	1,219	-	-	-	10,470	13,181
Banquets	-	-	-	-	-	-	-	-	-	-	-	-	-
Contracted services	53,163	9,340	17,164	4,329	4,467	2,037	16,299	4,274	-	1,414	-	112,487	31,218
Convention travel	1,354	1,354	1,740	1,636	1,590	1,491	1,595	3,579	-	-	-	14,339	21,234
Credit cards	21,516	5,906	9,676	10,859	9,446	1,613	6,700	7,564	-	4,793	-	78,073	106,556
Depreciation	24,991	40,119	20,301	2,433	15,458	245	420	4,803	-	-	2,469	111,229	109,613
Direct mail	-	-	-	-	-	-	-	-	-	-	-	-	-
Donations in-kind	2,768	345	710	212	1,957	-	733	-	-	-	-	6,725	12,163
Donations to others	9	20	9	9	9	9	9	548	-	-	-	622	4,537
Drug free program	1,989	1,341	1,089	693	837	9	513	945	-	-	-	7,416	9,856
Dues and subscriptions	52	172	177	227	227	52	252	52	-	3,192	-	4,403	5,833
Education and training	37	37	37	37	37	37	37	37	-	-	-	296	496
Emergency disaster work	-	13,900	2,650	440	440	-	550	26,447	-	-	-	17,540	241,883
Insurance	72,324	41,023	32,107	33,576	26,874	4,761	14,624	3,550	-	4,166	-	255,902	3,550
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Janitorial	5,820	4,627	2,380	2,672	2,205	617	1,533	2,435	-	15	-	22,304	21,220
Meals	753	545	210	189	355	129	219	194	-	73	-	2,667	3,787
Medical	-	-	-	-	-	-	-	-	-	-	-	-	-
Personnel benefits	50,865	33,473	17,566	18,804	24,106	9,653	14,929	23,198	-	7,709	-	200,303	203,568
Personnel costs	745,681	447,523	274,365	345,549	288,231	86,412	168,575	297,636	-	69,368	-	2,723,340	3,350,379
Postage	12	7	-	6	-	-	-	5	-	-	-	30	946
Rent	-	-	-	160,356	-	22,372	46,536	170,750	3,105	-	-	403,119	461,276
Repairs and maintenance	48,641	20,537	14,169	19,290	16,050	3,671	10,001	14,263	-	282	1,189	148,093	109,958
Supplies and small equipment	15,855	8,132	6,531	5,952	8,190	1,715	4,747	7,889	-	2,050	-	61,061	100,918
Sustenance	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes and licenses	3,219	291	7	7	7	7	7	141	-	-	443	4,129	12,131
Telephone	4,579	9,718	4,808	5,455	4,580	1,716	3,227	4,317	-	-	-	38,400	43,140
Utilities	74,137	42,684	25,223	41,218	23,794	5,734	17,610	49,849	-	2,851	-	283,100	331,793
Vehicles	354	249	249	254	1,236	249	249	249	-	-	-	3,119	12,938
Total	\$ 1,152,213	\$ 694,976	\$ 441,097	\$ 664,426	\$ 439,897	\$ 145,750	\$ 316,685	\$ 631,224	\$ 3,105	\$ 110,687	\$ 4,101	\$ 4,604,161	\$ 5,395,208

See independent auditor's report on additional information.

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES - RECYCLING CENTER
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS
YEAR ENDED DECEMBER 31, 2020
(With comparative totals for 2019)

	Total Recycling Center Expenses 2020	Total Recycling Center Expenses 2019
Accounting and legal	\$ -	\$ -
Advertising	-	1,687
Bank charges	18	18
Banquets	-	-
Contracted services	59,445	112,517
Convention travel	321	1,130
Credit cards	254	154
Depreciation	17,818	17,235
Direct mail	-	-
Donations in-kind	1,872	-
Donations to others	-	5,225
Drug free program	1,377	-
Dues and subscriptions	-	2,434
Education and training	-	215
Emergency disaster work	62	-
Insurance	38,231	50,618
Interest	20,815	22,739
Janitorial	1,054	2,025
Meals	62	394
Medical	-	-
Miscellaneous	-	-
Personnel benefits	47,979	61,751
Personnel costs	459,365	710,706
Postage	-	-
Rent	4,201	4,977
Repairs and maintenance	25,690	24,529
Supplies and small equipment	4,885	5,020
Sustenance	-	-
Taxes and licenses	1,364	985
Telephone	7,480	7,724
Uncollectible pledges	-	-
Utilities	15,990	31,628
Vehicles	192,840	288,639
Total	\$ 901,123	\$ 1,352,350

See independent auditor's report on additional information.