

CONSOLIDATED FINANCIAL STATEMENTS

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

DECEMBER 31, 2017

C O N T E N T S

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	2 - 3
CONSOLIDATED FINANCIAL STATEMENTS:	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Cash Flows	7
Notes to Financial Statements	8 - 30
ADDITIONAL INFORMATION	
Independent Auditor's Report on Additional Information	32
Consolidating Schedule of Financial Position	33
Consolidating Schedule of Activities	34
Consolidated Schedule of Functional Expenses - Missions	35
Consolidated Schedule of Functional Expenses - Thrift Stores	36
Consolidated Schedule of Functional Expenses - Recycling Centers	37

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

Certified Public Accountants

Business & Financial Consultants

Michael D. Thornton, Shareholder
Jan M. Pacenta, Shareholder
Catherine T. Bond, Officer
John R. Dunaway, Of Counsel
Russell F. Lentz, Officer
Sean K. Quigley, Officer

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, 2017, 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, 2017, and the changes in their net assets 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' 2016 consolidated financial statements, and in our report dated July 19, 2017, 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, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Brown Thornton Accountant & Company, P.A.

Pensacola, Florida
July 6, 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS
DECEMBER 31, 2017
(With comparative totals for 2016)

	<u>ASSETS</u>	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 1,808,820	\$ 809,617
Accounts receivable	10,421	25,095
Pledges receivable, net	40,000	130,000
Contributed merchandise inventory	744,607	759,430
Purchased merchandise inventory	54,887	138,403
Prepaid expenses and deposits	403,893	546,574
Investments	17,826	20,025
Cash surrender value life insurance	362,021	352,985
Note receivable	5,277,000	5,277,000
Property held for sale, net	259,619	-
Land, buildings, and equipment, net	13,828,312	14,658,553
Total assets	\$ 22,807,406	\$ 22,717,682
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 161,547	\$ 284,823
Accrued liabilities	130,191	110,363
Accrued compensated absences	284,317	348,934
Notes payable, net	8,982,235	9,234,805
Contingent notes payable	1,225,243	1,225,243
Deposits payable	12,043	12,043
Deferred revenues	36,646	40,691
Total liabilities	10,832,222	11,256,902
NET ASSETS		
Without donor restrictions	11,852,763	11,324,624
With donor restrictions	122,421	136,156
Total net assets	11,975,184	11,460,780
Total liabilities and net assets	\$ 22,807,406	\$ 22,717,682

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, 2017
(With comparative totals for 2016)

	Without Donor Restrictions	With Donor Restrictions	2017 Total	2016 Total
CHANGES IN NET ASSETS				
REVENUE AND SUPPORT				
Sales of purchased merchandise (less cost of \$268,135 and \$635,099)	\$ 117,789	\$ -	\$ 117,789	\$ 314,932
Merchandise contributed for sale (less cost of recyclables of \$11,481 and \$6,786)	6,867,949	-	6,867,949	6,335,259
Donated services and in-kind goods	480,847	-	480,847	568,463
Pledges revenue	-	-	-	120,005
Cash contributions	2,808,893	50,400	2,859,293	2,194,854
Interest	125,740	-	125,740	134,012
Investment income (loss)	1,585	-	1,585	(355)
Gain on sale of assets	184,908	-	184,908	159,252
Participation fees	274,314	-	274,314	34,869
Special events (less direct costs of \$36,718 and \$76)	769	-	769	148
Other revenue	976,213	-	976,213	185,476
Net assets released from restrictions	64,135	(64,135)	-	-
TOTAL REVENUE AND SUPPORT	11,403,142	(13,735)	11,389,407	10,046,915
EXPENSES				
Program services				
Missions	3,125,723	-	3,125,723	3,899,244
Thrift stores	4,352,201	-	4,352,201	4,509,799
Recycling centers	1,267,512	-	1,267,512	1,178,067
Total program services	8,745,436	-	8,745,436	9,587,110
Supporting services				
General and administrative	1,621,345	-	1,621,345	1,567,292
Fundraising	508,222	-	508,222	639,377
Total supporting services	2,129,567	-	2,129,567	2,206,669
TOTAL EXPENSES	10,875,003	-	10,875,003	11,793,779
CHANGE IN NET ASSETS	528,139	(13,735)	514,404	(1,746,864)
NET ASSETS, BEGINNING OF YEAR	11,324,624	136,156	11,460,780	13,207,644
NET ASSETS, END OF YEAR	\$ 11,852,763	\$ 122,421	\$ 11,975,184	\$ 11,460,780

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, 2017
(With comparative totals for 2016)

	Missions	Thrift Stores	Recycling Centers	Total Program Services	General and Administrative	Fund Raising	Total Supporting Services	Total Expenses 2017	Total Expenses 2016
Accounting and legal	\$ 12,605	\$ -	\$ -	\$ 12,605	\$ 208,471	\$ 15,074	\$ 223,545	\$ 236,150	\$ 146,793
Advertising	2,212	126,537	6,450	135,199	108,684	3,417	112,101	247,300	193,249
Bank charges	1,441	9,977	-	11,418	15,339	263	15,602	27,020	24,324
Banquets	64	294	-	358	2,494	-	2,494	2,852	188
Bulk mail	-	-	-	-	-	335,220	335,220	335,220	508,690
Contracted services	26,909	38,118	158,490	223,517	37,124	58,845	95,969	319,486	148,878
Convention travel	1,192	6,818	324	8,334	11,514	578	12,092	20,426	30,914
Credit card	-	77,763	-	77,763	-	6,397	6,397	84,160	89,395
Depreciation	364,536	121,600	19,115	505,251	50,944	31	50,975	556,226	635,542
Donations in-kind	460,864	14,797	5,186	480,847	-	-	-	480,847	552,078
Donations to others	100	10	-	110	5,340	-	5,340	5,450	4,716
Drug free program	2,508	8,002	2,443	12,953	180	-	180	13,133	23,565
Dues and subscriptions	7,816	8,131	4,985	20,932	12,254	818	13,072	34,004	32,754
Education and training	1,339	147	179	1,665	1,518	290	1,808	3,473	18,836
Insurance	155,168	167,728	52,698	375,594	40,640	-	40,640	416,234	448,273
Interest	315,833	1,421	24,350	341,604	51	-	51	341,655	348,354
Janitorial	65,178	20,618	1,877	87,673	584	-	584	88,257	88,309
Meals	53,269	2,796	315	56,380	2,192	60	2,252	58,632	71,735
Medical	577	84	-	661	-	-	-	661	2,340
Miscellaneous	-	-	-	-	-	-	-	-	2,448
Personnel benefits	83,763	159,563	42,090	285,416	124,713	3,372	128,085	413,501	490,835
Personnel costs	1,037,852	2,767,762	616,737	4,422,351	827,094	68,767	895,861	5,318,212	5,948,037
Postage	531	156	-	687	9,798	5,217	15,015	15,702	22,370
Rent	54,134	279,808	7,346	341,288	24,962	-	24,962	366,250	313,205
Repairs and maintenance	130,193	124,789	15,339	270,321	76,065	4,013	80,078	350,399	365,298
Supplies and small equipment	28,979	93,061	3,466	125,506	12,948	2,860	15,808	141,314	141,640
Sustenance	16,215	-	-	16,215	-	-	-	16,215	28,800
Taxes and licenses	3,646	4,368	497	8,511	4,072	3,000	7,072	15,583	30,123
Telephone	21,808	46,618	8,117	76,543	25,041	-	25,041	101,584	112,801
Utilities	218,360	268,776	37,990	525,126	14,997	-	14,997	540,123	600,189
Vehicles	58,631	2,459	259,518	320,608	4,326	-	4,326	324,934	369,100
Total	\$ 3,125,723	\$ 4,352,201	\$ 1,267,512	\$ 8,745,436	\$ 1,621,345	\$ 508,222	\$ 2,129,567	\$ 10,875,003	\$ 11,793,779

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, 2017
(With comparative totals for 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 514,404	\$ (1,746,864)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Merchandise contributed for sale, net of cost of recyclables	(6,367,949)	(6,335,259)
Sales of contributed merchandise	6,382,772	6,587,244
In-kind stock donation	(6,301)	(16,385)
Depreciation	556,226	635,542
Amortization of loan costs	32,149	30,503
Unrealized gain on investments	(1,724)	-
Gain on sale of property and equipment	(184,908)	(159,252)
Increase in cash surrender value of life insurance	(9,036)	(17,331)
(Increase) decrease in operating assets:		
Accounts receivable	14,674	24,883
Contributions receivable	-	104,103
Pledges receivable	90,000	(9,135)
Inventory of purchased goods	83,516	66,752
Prepaid expenses	259,189	274,709
Increase (decrease) in operating liabilities:		
Accounts payable	(123,276)	29,018
Accrued liabilities	19,828	(6,557)
Accrued compensated absences	(64,617)	(67,791)
Deferred revenues	(4,045)	(4,642)
Net cash provided by (used in) operating activities	1,190,902	(610,462)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments, net	5,046	(9,102)
Purchase of property and equipment	(63,148)	(262,073)
Proceeds from sale of property and equipment	262,452	1,903,979
Proceeds from sale of stock	5,178	14,596
Net cash provided by investing activities	209,528	1,647,400
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	-	(200,000)
Payment for debt issuance costs	-	(19,989)
Payments on long-term debt	(401,227)	(428,774)
Net cash used in financing activities	(401,227)	(648,763)
NET INCREASE IN CASH AND CASH EQUIVALENTS	999,203	388,175
Cash and cash equivalents, beginning of year	809,617	421,442
Cash and cash equivalents, end of year	\$ 1,808,820	\$ 809,617

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, and Gulf Breeze) 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 environment 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 to be 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.

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. During 2017, the minority owned interest was transferred back to Waterfront Rescue Mission, Inc. resulting in the 100 percent ownership of WRM QALICB.
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, 2017.
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017.

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, 2017. 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 - The Organization applies the accounting standard, Fair Value Measurements and Disclosures (ASC 820) that establishes a framework for measuring fair value. This standard defines the fair value as the amount that would be exchanged for an asset or to transfer a liability in an orderly transaction between market participants at the measurement date.

The standard establishes a 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.

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)

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 Organization maintains whole-life life insurance policies on a former executive director, which are measured at fair value using Level 2 inputs. The policies are recorded at their cash surrender values, which approximates fair value.

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.

11. Note Receivable - Note receivable represents funds advanced to Waterfront QEI, LLC to facilitate the NMTC financing (See Note F). 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, 2017.
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 - During 2016, the Organization adopted new authoritative GAAP guidance for the presentation of debt issuance costs and related amortization, Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. Debt issuance costs are now reported on the statement of financial position as a direct deduction from the face amount of debt. Previously, such costs were shown as a deferred charge.

The Organization continues to reflect amortization of debt issuance costs as interest expense, in accordance with the new guidance.

This change had no effect on previously reported net assets or change in net assets.

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 to be \$474,546. In-kind stock donations totaled \$6,301 for the year ended December 31, 2017.

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 \$247,300 for the year ended December 31, 2017.
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, 2016 from which the summarized information was derived.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017. 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, 2017.

The Organization's information and tax returns for the years ended December 31, 2015 through 2017 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

22. Recent Financial Accounting Pronouncements - In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are the first phase of changes aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: net assets with donor restrictions and net assets without donor restrictions. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the date of the statement of financial position. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The standard is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. The Organization has adopted this ASU for its year ending December 31, 2017. Adoption of this ASU will significantly impact the presentation and disclosures of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018, but early adoption is permitted. The Organization plans to adopt this ASU for its year ending December 31, 2019. The Organization is currently evaluating the effect of adopting the new standard on the Organization's financial statements.

23. Events Occurring After the Reporting Date - The Waterfront Rescue Mission, Inc. has evaluated events and transactions that occurred between December 31, 2017 and July 6, 2018, 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, 2017:

Non-interest bearing accounts	\$ 1,796,470
Cash on hand	<u>12,350</u>
	<u>\$ 1,808,820</u>

NOTE D - SUPPLEMENTAL CASH FLOW INFORMATION

The Organization paid \$353,612 in interest during the year ended December 31, 2017. During 2017, the Organization received in-kind stock donations totaling \$6,301. Insurance was financed during 2017 in the amount of \$116,508. During 2017, a note was refinanced in the amount of \$195,606.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE E - PLEDGES RECEIVABLE

Pledges receivable of \$40,000 at December 31, 2017 consist of unconditional promises to give from individuals and private foundations. These contributions are restricted and are receivable in less than one year. No discount has been applied to the pledges receivable balance at December 31, 2017.

NOTE F - 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 are due beginning November 2013 through December 2020. Beginning in January 2021, monthly principal and interest payments of \$21,065 are due until maturity in November 2043. The note is secured by a forbearance agreement and the ownership interest in the SCC Sub-CDE1, LLC. The unpaid principal balance at December 31, 2017 was \$5,277,000. See Note L for a further discussion of the NMTC financing.

Interest income received on the note receivable for the year ended December 31, 2017 was \$116,388.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE G - INVESTMENTS

Cost, fair value, and unrealized gains (losses) from acquisition until December 31, 2017 for assets held as investments are summarized as follows:

	Cost	Fair Value	Unrealized Gains (Losses)
Trading investments	\$ 17,826	\$ 17,826	\$ -
Cash surrender value of life insurance	362,021	362,021	-
	\$ 379,847	\$ 379,847	\$ -

Fair value of assets measured on a recurring basis at December 31, 2017, were as follows:

	Fair Value	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurement Using Significant Other Observable Inputs (Level 2)
Trading investments	\$ 17,826	\$ 17,826	\$ -
Cash surrender value of life insurance	362,021	-	362,021
	\$ 379,847	\$ 17,826	\$ 362,021

There were no Level 3 inputs at December 31, 2017.

Subsequent to year end, the Organization's insured individual passed away and the Organization will receive the payout from the policies in the near-term.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE H - LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment owned by the Organization at December 31, 2017 were as follows:

Land	\$	2,843,649
Buildings and improvements		13,849,992
Leasehold improvements		24,510
Furniture, fixtures, and equipment		1,998,606
Vehicles		<u>592,291</u>
		19,309,048
Less accumulated depreciation		<u>(5,480,736)</u>
	\$	<u>13,828,312</u>

The Organization had two properties held for sale at December 31, 2017 totaling \$661,577 net of accumulated depreciation totaling \$401,958, for a net value of \$259,619. These properties were subsequently sold for a total of \$390,000 to an unrelated party.

Depreciation expense for the year ended December 31, 2017 was \$556,226.

NOTE I - FINANCIAL ASSETS AVAILABLE FOR GENERAL EXPENDITURES

The following reflects the Organization's financial assets as of December 31, 2017, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of December 31, 2017. However, amounts already appropriated from the donor-restricted endowment for general expenditure within one year of December 31, 2017 have not been subtracted as unavailable.

Financial assets, at year-end	\$2,239,088
Less those unavailable for general expenditures within one year, due to:	
Subject to satisfaction of donor restrictions	<u>(51,469)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$2,187,619</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, 2017 are as follows:

The Mission:

Note to bank, monthly interest only payments, variable interest at 4.50% through February 2014, then quarterly interest payments and annual principal payments of \$92,857 through February 2020, collateralized by leasehold interest in real property	\$ 278,568
Note to insurance company, monthly payments of \$10,867, including interest at 5.16% through February 2018, uncollateralized	7,935
Note to Trustmark, including interest at 5.00%, monthly principal and interest payments of \$15,816 due starting December 2013, with the remaining balance of approximately \$1,239,464 due at maturity in December 2020, 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 \$11,389,977	1,239,464
Note to Trustmark, including interest at 5.75%, payable in full in December 2018, 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 \$11,389,977	195,606
Note to bank, monthly payments of \$560, including interest at 4.50% through May 2019, collateralized by one vehicle with a net book value of \$8,982	9,200
Note to bank, monthly payments of \$560, including interest at 4.50% through May 2019, collateralized by one vehicle with a net book value of \$8,982	9,200
Note to bank, monthly payments of \$605, including interest at 4.25% through April 2020, collateralized by one vehicle with a net book value of \$14,401	16,078
Note to bank, monthly payments of \$605, including interest at 4.25% through April 2020, collateralized by one vehicle with a net book value of \$15,302	16,078

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE J - NOTES PAYABLE (Continued)

The Mission: (Continued)

Note to bank, monthly payments of \$435, including interest at 3.49% through November 2020, collateralized by one vehicle with a net book value of \$13,635	14,246
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 \$529,178	391,043
Less, New Market Tax Credit unamortized debt issuance costs	(32,456)

WRM QALICB:

Note to SCC Sub-CDE1, LLC, including interest at 1.60%; interest only payments of \$2,664 due monthly until November 2020, monthly principal and interest payments ranging from \$6,598 to \$11,867 starting December 2020 through maturity at November 2043, secured by a Deed of Trust and assignment of leases and rents on the Mobile Mission Homeless Campus land and building, and security agreement, loan and regulatory agreement restrict the use of the property to those allowed as a qualified active low-income community business for the term of the note	1,998,000
Note to SCC Sub-CDE1, LLC, including interest at 1.60%, interest only payments of \$7,036 due monthly until November 2020, principal and interest payments ranging from \$17,426 to \$31,342 due monthly starting December 2020 until maturity at November 2043, secured by a Deed of Trust and assignment of leases and rents on the Mobile Mission Homeless Campus land and building, and security agreement, loan and regulatory agreement restrict the use of the property to those allowed as a qualified active low-income community business for the term of the note	5,277,000
Less, New Market Tax Credit unamortized debt issuance costs	(437,727)

\$ 8,982,235

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>
2018	\$ 442,290
2019	239,295
2020	1,073,088
2021	511,278
2022	163,068
Thereafter	<u>6,553,216</u>
	<u>\$ 8,982,235</u>

Interest expense related to the notes payable for the year ended December 31, 2017 was \$341,655.

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 \$4,106,541. 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 \$6,112,977. These funds were awarded in conjunction with the loan, dated September 15, 2014, for \$225,243 with a financial institution.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE K - CONTINGENT NOTES PAYABLE (Continued)

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, 2017.

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 to or investments in businesses and projects in low-income areas.

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 F 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 promissory notes call for certain covenants with which the Organization must comply.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE L - NEW MARKET TAX CREDIT FINANCING (Continued)

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 remain invested in the CDE for a seven-year period ending in November 2020. The Mission and Trustmark have entered into a put/call option agreement to take place at the end of the seven-year period. Under the agreement, Trustmark can exercise a put option to sell all interest in the QEI for \$1,000 to the Mission. If the put option is not exercised, the Mission can exercise a call option to purchase the interest of the QEI at its then fair market value. 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, 2017:

Relocation capital campaign	\$	42,996
Veterans Care Program		40,000
Hunger Program		27,956
Other purposes		<u>11,469</u>
	\$	<u><u>122,421</u></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, 2017 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, 2016	\$ 11,460,383	\$ 1,571,128	\$ (810,601)	\$ (896,286)	\$ 11,324,624
Changes in net assets without donor restrictions	<u>722,088</u>	<u>-</u>	<u>(215,662)</u>	<u>21,713</u>	<u>528,139</u>
Balance, December 31, 2017	<u>\$ 12,182,471</u>	<u>\$ 1,571,128</u>	<u>\$ (1,026,263)</u>	<u>\$ (874,573)</u>	<u>\$ 11,852,763</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, 2016	\$ 93,160	\$ 42,996	\$ -	\$ -	\$ 136,156
Changes in net assets with donor restrictions	<u>(13,735)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,735)</u>
Balance, December 31, 2017	<u>\$ 79,425</u>	<u>\$ 42,996</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,421</u>

NOTE O - 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 was renewed in February 2011 for an additional two-year period, and was extended again in February 2013. The lease expired in April 2015 and is on a month-to-month basis.

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 \$7,643 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE O - SUBLEASE RENTAL INCOME (Continued)

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.

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

<u>Year Ending December 31,</u>	<u>Amounts</u>
2018	\$ 127,716
2019	116,916
2020	116,916
2021	116,916
2022	116,916
Thereafter	<u>230,232</u>
	<u>\$ 825,612</u>

The following is a summary of the leased property in service at December 31, 2017:

Land	\$ 83,741
Land improvements	12,156
Buildings and improvements	1,563,148
Equipment	<u>1,980</u>
	1,661,025
Less accumulated depreciation	<u>(207,716)</u>
	<u>\$ 1,453,309</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE O - SUBLEASE RENTAL INCOME (Continued)

Rental revenue and expenses for the year ended December 31, 2017 were as follows:

Revenues	\$	166,732
Expenses		
Depreciation		40,929
Insurance		13,855
Repairs and maintenance		9,763
Utilities		<u>22,126</u>
		<u>86,673</u>
Net rental income	\$	<u>80,059</u>

Net rental income is included in other revenue in the statement of activities.

NOTE P - 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, 2017 for this land was \$51,300.

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. Rent expense for the year ended December 31, 2017 for this facility was \$36,487.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE P - OPERATING LEASES (Continued)

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. Rent expense for the year ended December 31, 2017 for this facility was \$43,200.

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.

In 2015, the Organization entered into a lease for software under a five-year operating agreement requiring annual rental payments of \$11,340 expiring August 2020. Rent expense for the year ended December 31, 2017 was \$11,904.

The Organization continued leasing eight vehicles during 2017. Rent expense for the year ended December 31, 2017 for these vehicles was \$113,390. The leases on the vehicles expire in March 2019 for three of the vehicles, in September 2020 for three of the vehicles, in December 2020 for one of the vehicles, and in September 2022 for one 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 \$195,072 with two five-year renewal periods available. Rent expense for the year ended December 31, 2017 was \$184,032.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE P - OPERATING LEASES (Continued)

At December 31, 2017, 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:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2018	\$ 440,604
2019	410,853
2020	330,904
2021	160,656
2022	63,760
Thereafter	<u>2,011,500</u>
	<u>\$ 3,418,277</u>

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

NOTE Q - 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 \$1,030,823 at December 31, 2017.

NOTE R - 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 must 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.

Also, in connection with the NMTC transaction discussed in Note L, the Organization could be exposed to the failure of the put option being exercised or an unfavorable call option result.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE S - BP SETTLEMENT

In February 2017, the Organization reached a settlement in connection with BP Deepwater Horizon Oil Spill claim, in the amount of \$806,723, net of attorney fees and other costs of \$128,412. This revenue is included in other income in the statement of activities for the year ended December 31, 2017.

NOTE T - 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 contributed \$16,547 to the Plan for the year ended December 31, 2017.

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, 2017, and our report thereon dated July 6, 2018, 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 33 - 37 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
July 6, 2018

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS
DECEMBER 31, 2017

ASSETS					
	<u>Mission</u>	<u>Foundation</u>	<u>WRM QALICB</u>	<u>Eliminating Entries</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 1,091,233	\$ 681,240	\$ 36,347	\$ -	\$ 1,808,820
Accounts receivable	10,421	-	-	-	10,421
Contribution receivable	-	-	-	-	-
Intercompany receivables	1,077,559	1,992,392	20,785	(3,090,736)	-
Pledges receivable, net	40,000	-	-	-	40,000
Contributed merchandise inventory	744,607	-	-	-	744,607
Purchased merchandise inventory	54,887	-	-	-	54,887
Prepaid expenses and deposits	149,380	-	254,513	-	403,893
Investments	218,076	-	-	(200,250)	17,826
Cash surrender value life insurance	362,021	-	-	-	362,021
Note receivable	5,277,000	-	-	-	5,277,000
Land, buildings, and equipment, net	8,995,270	-	5,223,642	(390,600)	13,828,312
Property held for sale, net	259,619	-	-	-	259,619
Total assets	<u>\$ 18,280,073</u>	<u>\$ 2,673,632</u>	<u>\$ 5,535,287</u>	<u>\$ (3,681,586)</u>	<u>\$ 22,807,406</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 158,691	\$ -	\$ 2,856	\$ -	\$ 161,547
Accrued liabilities	128,314	-	1,877	-	130,191
Intercompany payables	2,027,961	1,059,508	3,267	(3,090,736)	-
Accrued compensated absences	284,317	-	-	-	284,317
Notes payable, net	2,144,962	-	6,553,550	283,723	8,982,235
Contingent note payable	1,225,243	-	-	-	1,225,243
Deposits payable	12,043	-	-	-	12,043
Deferred revenues	36,646	-	-	-	36,646
Total liabilities	6,018,177	1,059,508	6,561,550	(2,807,013)	10,832,222
NET ASSETS					
Without donor restrictions	12,182,471	1,571,128	(1,026,263)	(874,573)	11,852,763
With donor restrictions	79,425	42,996	-	-	122,421
Total net assets	<u>12,261,896</u>	<u>1,614,124</u>	<u>(1,026,263)</u>	<u>(874,573)</u>	<u>11,975,184</u>
Total liabilities and net assets	<u>\$ 18,280,073</u>	<u>\$ 2,673,632</u>	<u>\$ 5,535,287</u>	<u>\$ (3,681,586)</u>	<u>\$ 22,807,406</u>

See independent auditor's report on additional information.

CONSOLIDATING SCHEDULE OF ACTIVITIES
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS
YEAR ENDED DECEMBER 31, 2017

	Mission	Foundation	WRM QALICB	Eliminating Entries	Total
CHANGES IN NET ASSETS					
REVENUE AND SUPPORT					
Sales of purchased merchandise (less cost of \$268,135)	\$ 117,789	\$ -	\$ -	\$ -	\$ 117,789
Merchandise contributed for sale (less cost of recyclables of \$11,481)	6,367,949	-	-	-	6,367,949
Donated services and in-kind goods	480,847	-	-	-	480,847
Pledges revenue	-	-	-	-	-
Cash contributions	2,859,293	-	-	-	2,859,293
Interest	125,740	-	-	-	125,740
Investment income (loss)	1,585	-	-	-	1,585
Gain on sale of assets	184,908	-	-	-	184,908
Participation fees	274,314	-	-	-	274,314
Special events (less direct expenses of \$36,718)	769	-	-	-	769
Other revenue	976,213	-	305,792	(305,792)	976,213
TOTAL REVENUE AND SUPPORT	11,389,407	-	305,792	(305,792)	11,389,407
EXPENSES					
Program services					
Missions	2,931,774	-	521,454	(327,505)	3,125,723
Thrift stores	4,352,201	-	-	-	4,352,201
Recycling centers	1,267,512	-	-	-	1,267,512
Total program services	8,551,487	-	521,454	(327,505)	8,745,436
Supporting services					
General and administrative	1,621,345	-	-	-	1,621,345
Fundraising	508,222	-	-	-	508,222
Total supporting services	2,129,567	-	-	-	2,129,567
TOTAL EXPENSES	10,681,054	-	521,454	(327,505)	10,875,003
CHANGE IN NET ASSETS	708,353	-	(215,662)	21,713	514,404
NET ASSETS, BEGINNING OF YEAR	11,553,543	1,614,124	(810,601)	(896,286)	11,460,780
NET ASSETS (DEFICIT), END OF YEAR	\$ 12,261,896	\$ 1,614,124	\$ (1,026,263)	\$ (874,573)	\$ 11,975,184

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, 2017
(With comparative totals for 2016)

	Pensacola Mission	Mobile Mission	Ft. Walton Mission	Day Resource Center	Total Mission Expenses 2017	Total Mission Expenses 2016
Accounting and legal	\$ 7,241	\$ 5,364	\$ -	\$ -	\$ 12,605	\$ 29,579
Advertising	1,106	1,106	-	-	2,212	3,920
Bank Charges	22	1,419	-	-	1,441	1,786
Banquets	20	-	44	-	64	-
Bulk mail	-	-	-	-	-	-
Contracted services	-	(2,173)	-	-	(2,173)	28,868
Convention travel	482	710	-	-	1,192	7,983
Credit cards	-	-	-	-	-	-
Depreciation	198,932	145,045	-	20,559	364,536	432,877
Donations in-kind	361,309	93,555	-	-	460,864	534,616
Donations to others	100	-	-	-	100	150
Drug free program	2,129	379	-	-	2,508	4,031
Dues and subscriptions	2,955	3,433	1,001	427	7,816	5,067
Education and training	1,339	-	-	-	1,339	12,535
Insurance	78,205	66,281	-	10,682	155,168	178,933
Interest	19,731	296,102	-	-	315,833	333,232
Janitorial	41,664	20,038	-	3,476	65,178	62,183
Meals	31,117	22,054	-	98	53,269	64,731
Medical	564	27	-	(14)	577	2,180
Miscellaneous	11,250	12,926	-	6,782	30,958	11,571
Personnel benefits	60,290	21,943	-	1,530	83,763	152,426
Personnel costs	711,043	273,430	-	51,501	1,035,974	1,432,410
Postage	36	495	-	-	531	1,040
Rent	51,594	1,296	-	1,244	54,134	51,201
Repairs and maintenance	95,308	33,174	-	1,711	130,193	122,551
Supplies and small equipment	18,846	3,687	3,592	2,854	28,979	24,098
Sustenance	12,110	4,105	-	-	16,215	28,800
Taxes and licenses	3,439	207	-	-	3,646	6,437
Telephone	9,676	9,914	-	2,218	21,808	33,117
Utilities	132,753	69,485	-	16,122	218,360	257,883
Vehicles	40,123	18,508	-	-	58,631	75,089
Total	\$ 1,893,384	\$ 1,108,510	\$ 4,637	\$ 119,190	\$ 3,125,721	\$ 3,899,244

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, 2017
(With comparative totals for 2016)

	Pensacola Thrift Store	Foley Thrift Store	Milton Thrift Store	Ft. Walton Thrift Store	Crestview Thrift Store	Cantonment Thrift Store	Gulf Breeze Thrift Store	Auto Vocations	Total Thrift Store Expenses 2017	Total Thrift Store Expenses 2016
Accounting and legal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Advertising	29,479	16,784	16,514	17,631	15,974	15,004	15,004	147	126,537	120,006
Bank charges	2,912	1,105	622	1,781	826	263	2,468	-	9,977	6,676
Banquets	88	78	44	-	44	20	20	-	294	-
Bulk mail	-	-	-	-	-	-	-	-	-	-
Contracted services	11,722	5,872	4,024	6,955	3,619	2,922	3,004	-	38,118	14,174
Convention travel	928	1,011	946	978	1,099	928	928	-	6,818	11,196
Credit cards	21,691	14,286	11,443	10,346	10,060	3,489	6,448	-	77,763	82,440
Depreciation	31,591	42,462	24,725	1,431	13,257	1,217	3,578	3,339	121,600	127,328
Donations in-kind	7,636	280	2,524	1,622	2,051	205	479	-	14,797	16,621
Donations to others	-	10	-	-	-	-	-	-	10	10
Drug free program	3,087	1,983	288	1,465	873	153	153	-	8,002	15,290
Dues and subscriptions	1,821	1,300	1,190	364	1,240	1,151	1,065	-	8,131	11,375
Education and training	21	21	21	21	21	21	21	-	147	400
Insurance	47,964	21,709	24,226	29,798	21,793	9,662	12,492	84	167,728	174,109
Interest	203	203	203	203	203	203	203	-	1,421	1,777
Janitorial	5,947	4,862	2,802	2,569	2,504	778	1,156	-	20,618	24,259
Meals	708	123	424	193	196	361	791	-	2,796	3,224
Medical	50	-	-	-	30	4	-	-	84	160
Miscellaneous	-	-	-	-	-	-	-	-	-	5,642
Personnel benefits	50,411	26,530	18,820	12,119	29,213	10,847	11,623	-	159,563	181,732
Personnel costs	953,154	492,173	362,155	354,966	325,287	106,547	172,510	970	2,767,762	2,883,027
Postage	32	11	16	13	12	10	62	-	156	619
Rent	2,789	2,603	1,285	185,317	1,285	39,908	46,621	-	279,808	203,719
Repairs and maintenance	49,700	22,933	14,219	11,690	15,225	3,872	5,744	1,406	124,789	174,350
Supplies and small equipment	31,352	16,478	11,252	11,154	9,717	5,257	7,851	-	93,061	91,948
Sustenance	-	-	-	-	-	-	-	-	-	-
Taxes and licenses	3,629	729	2	2	2	2	2	-	4,368	11,335
Telephone	9,882	10,706	5,774	6,431	4,791	2,321	5,883	830	46,618	45,902
Utilities	85,278	47,042	26,010	48,742	30,296	11,432	19,976	-	268,776	297,298
Vehicles	1,094	225	225	225	225	240	225	-	2,459	5,182
Total	\$ 1,353,169	\$ 731,519	\$ 529,754	\$ 706,016	\$ 489,843	\$ 216,817	\$ 318,307	\$ 6,776	\$ 4,352,201	\$ 4,509,799

See independent auditor's report on additional information.

**CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES - RECYCLING
CENTERS**

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

**YEAR ENDED DECEMBER 31, 2017
(With comparative totals for 2016)**

	Total Recycling Center Expenses 2017	Total Recycling Center Expenses 2016
Accounting and legal	\$ -	\$ 2,250
Advertising	6,450	50
Bank charges	-	-
Banquets	-	-
Bulk mail	-	-
Contracted services	150,987	32,655
Convention travel	324	365
Credit cards	-	-
Depreciation	19,115	17,656
Donations in-kind	5,186	841
Donations to others	-	-
Drug free program	2,443	3,930
Dues and subscriptions	4,985	1,876
Education and training	179	149
Insurance	52,698	53,745
Interest	24,350	7,287
Janitorial	1,877	1,322
Meals	315	106
Medical	-	-
Miscellaneous	8,335	1,920
Personnel benefits	42,090	12,644
Personnel costs	615,905	634,837
Postage	-	-
Rent	7,346	41,460
Repairs and maintenance	15,339	19,074
Supplies and small equipment	3,466	19,012
Sustenance	-	-
Taxes and licenses	497	9,379
Telephone	8,117	8,431
Utilities	37,990	25,414
Vehicles	259,518	283,664
	<u>259,518</u>	<u>283,664</u>
Total	<u>\$ 1,267,512</u>	<u>\$ 1,178,067</u>

See independent auditor's report on additional information.