

CONSOLIDATED FINANCIAL STATEMENTS

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

DECEMBER 31, 2018

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 - 28
ADDITIONAL INFORMATION	
Independent Auditor's Report on Additional Information	30
Consolidating Schedule of Financial Position	31
Consolidating Schedule of Activities	32
Consolidated Schedule of Functional Expenses - Missions	33
Consolidated Schedule of Functional Expenses - Thrift Stores	34
Consolidated Schedule of Functional Expenses - Recycling Center	35

**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, 2018, 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, 2018, 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' 2017 consolidated financial statements, and in our report dated July 6, 2018, 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, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Brown Shenton Parent & Company, P.A.

Pensacola, Florida
July 11, 2019

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

DECEMBER 31, 2018
(With comparative totals for 2017)

	<u>ASSETS</u>	
	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 2,549,540	\$ 1,826,646
Accounts receivable	30,420	10,421
Pledges receivable, net	80,000	40,000
Contributed merchandise inventory	915,758	744,607
Purchased merchandise inventory	43,017	54,887
Prepaid expenses and deposits	406,291	403,893
Cash surrender value life insurance	-	362,021
Note receivable	5,277,000	5,277,000
Property held for sale, net	-	259,619
Land, buildings, and equipment, net	<u>13,357,788</u>	<u>13,828,312</u>
 Total assets	 <u>\$ 22,659,814</u>	 <u>\$ 22,807,406</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 279,607	\$ 161,547
Accrued liabilities	198,294	130,191
Accrued compensated absences	280,920	284,317
Notes payable, net	8,739,281	8,982,235
Contingent notes payable	1,225,243	1,225,243
Deposits payable	12,043	12,043
Deferred revenues	<u>50,575</u>	<u>36,646</u>
 Total liabilities	 10,785,963	 10,832,222
NET ASSETS		
Without donor restrictions	11,744,467	11,852,763
With donor restrictions	<u>129,384</u>	<u>122,421</u>
 Total net assets	 <u>11,873,851</u>	 <u>11,975,184</u>
 Total liabilities and net assets	 <u>\$ 22,659,814</u>	 <u>\$ 22,807,406</u>

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, 2018
(With comparative totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
CHANGES IN NET ASSETS				
REVENUE AND SUPPORT				
Sales of purchased merchandise (less cost of \$160,923 and \$268,135)	\$ 59,409	\$ -	\$ 59,400	\$ 117,789
Merchandise contributed for sale (less cost of recyclables of \$24,317 and \$11,481)	6,797,852	-	6,797,852	6,367,949
Donated services and in-kind goods	498,841	-	498,841	480,847
Pledges revenue	-	80,000	80,000	-
Cash contributions and grants	2,653,203	-	2,653,203	2,859,293
Interest	116,749	-	116,749	125,740
Investment income (loss)	(951)	-	(951)	1,585
Gain on sale of assets	102,077	-	102,077	184,908
Participation fees	323,977	-	323,977	274,314
Special events (less direct costs of \$6,105 and \$36,718)	(1,835)	-	(1,835)	769
Other revenue	260,749	-	260,749	976,213
Net assets released from restrictions	73,037	(73,037)	-	-
TOTAL REVENUE AND SUPPORT	10,883,108	6,963	10,890,071	11,389,407
EXPENSES				
Program services				
Missions	3,085,162	-	3,085,162	3,125,723
Thrift stores	4,666,038	-	4,666,038	4,352,201
Recycling center	1,231,516	-	1,231,516	1,267,512
Total program services	8,982,716	-	8,982,716	8,745,436
Supporting services				
General and administrative	1,334,922	-	1,334,922	1,621,345
Fundraising	673,766	-	673,766	508,222
Total supporting services	2,008,688	-	2,008,688	2,129,567
TOTAL EXPENSES	10,991,404	-	10,991,404	10,875,003
CHANGE IN NET ASSETS	(108,296)	6,963	(101,333)	514,404
NET ASSETS, BEGINNING OF YEAR	11,852,763	122,421	11,975,184	11,460,780
NET ASSETS, END OF YEAR	\$ 11,744,467	\$ 129,384	\$ 11,873,851	\$ 11,975,184

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, 2018
(With comparative totals for 2017)

	Missions	Thrift Stores	Recycling Center	Total Program Services	General and Administrative	Fund Raising	Total Supporting Services	Total Expenses 2018	Total Expenses 2017
Accounting and legal	\$ 7,061	\$ 800	\$ -	\$ 7,861	\$ 72,587	\$ 5,862	\$ 78,449	\$ 86,310	\$ 236,150
Advertising	2,973	141,067	1,944	145,984	23,246	119,182	142,428	288,412	247,300
Bank charges	1,699	12,683	-	14,382	14,995	63	15,058	29,440	27,020
Banquets	175	-	-	175	687	-	687	862	2,852
Contracted services	21,165	49,372	94,704	165,241	33,263	43,421	76,684	241,925	319,486
Convention travel	7,959	8,584	183	16,726	11,675	423	12,098	28,824	20,426
Credit card	-	80,716	-	80,716	-	8,133	8,133	88,849	84,160
Depreciation	354,610	116,159	14,780	485,549	31,448	-	31,448	516,997	556,226
Direct mail	-	-	-	-	-	377,807	377,807	377,807	335,220
Donations in-kind	456,701	28,459	6,413	491,573	-	-	-	491,573	480,847
Donations to others	2,230	3,816	-	6,046	6,287	-	6,287	12,333	5,450
Drug free program	2,642	8,819	3,684	15,145	181	72	253	15,398	13,133
Dues and subscriptions	2,849	4,302	1,029	8,180	11,610	1,217	12,827	21,007	34,004
Education and training	4,102	461	-	4,563	5,343	343	5,686	10,249	3,473
Insurance	138,980	181,573	53,568	374,121	22,594	-	22,594	396,715	416,234
Interest	300,268	655	22,527	323,450	2,640	-	2,640	326,090	341,655
Janitorial	59,217	18,346	1,702	79,265	783	-	783	80,048	88,257
Meals	36,494	4,440	519	41,453	3,668	83	3,751	45,204	58,632
Medical	787	254	-	1,041	-	-	-	1,041	661
Personnel benefits	110,150	191,466	44,825	346,441	110,838	5,215	116,053	462,494	413,501
Personnel costs	1,064,114	2,858,780	637,778	4,560,672	820,767	106,537	927,304	5,487,976	5,318,212
Postage	510	279	78	867	16,625	1,924	18,549	19,416	15,702
Rent	54,890	318,053	3,782	376,725	43,290	-	43,290	420,015	366,250
Repairs and maintenance	99,335	184,541	23,152	307,028	45,052	839	45,891	352,919	350,399
Supplies and small equipment	36,941	107,537	6,598	151,076	12,149	633	12,782	163,858	141,314
Sustenance	8,610	-	-	8,610	-	-	-	8,610	16,215
Taxes and licenses	3,377	3,920	1,421	8,718	7,941	2,000	9,941	18,659	15,583
Telephone	18,549	40,310	7,817	66,676	22,812	-	22,812	89,488	101,584
Utilities	221,570	297,718	32,538	551,826	13,746	-	13,746	565,572	540,123
Vehicles	67,204	2,928	272,474	342,606	695	12	707	343,313	324,934
Total	\$ 3,085,162	\$ 4,666,038	\$ 1,231,516	\$ 8,982,716	\$ 1,334,922	\$ 673,766	\$ 2,008,688	\$ 10,991,404	\$ 10,875,003

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, 2018
(With comparative totals for 2017)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (101,333)	\$ 514,404
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Merchandise contributed for sale, net	(6,797,852)	(6,367,949)
Sales of contributed merchandise	6,626,701	6,382,772
In-kind stock donation	(3,464)	(6,301)
Depreciation	516,997	556,226
Amortization of loan costs	30,857	32,149
Unrealized gain on investments	-	(1,724)
Gain on sale of property and equipment	(102,077)	(184,908)
Gain on life insurance proceeds	(62,979)	-
Increase in cash surrender value of life insurance	-	(9,036)
(Increase) decrease in operating assets:		
Accounts receivable	(19,999)	14,674
Contributions receivable	-	-
Pledges receivable	(40,000)	90,000
Inventory of purchased goods	11,870	83,516
Prepaid expenses	96,305	259,189
Increase (decrease) in operating liabilities:		
Accounts payable	118,060	(123,276)
Accrued liabilities	68,103	19,828
Accrued compensated absences	(3,397)	(64,617)
Deferred revenues	13,929	(4,045)
Net cash provided by operating activities	<u>351,721</u>	<u>1,190,902</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from life insurance policies	425,000	-
Change in investments, net	-	5,046
Purchase of property and equipment	(43,719)	(63,148)
Proceeds from sale of property and equipment	358,942	262,452
Proceeds from sale of stock	3,464	5,178
Net cash provided by investing activities	<u>743,687</u>	<u>209,528</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(372,514)	(401,227)
Net cash used in financing activities	<u>(372,514)</u>	<u>(401,227)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>722,894</u>	<u>999,203</u>
Cash and cash equivalents, beginning of year	<u>1,826,646</u>	<u>827,443</u>
Cash and cash equivalents, end of year	<u>\$ 2,549,540</u>	<u>\$ 1,826,646</u>

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 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.
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, 2018.
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.

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, 2018.

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, 2018. 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 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, 2018.
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 - 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.

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, 2018 to be \$495,378. In-kind stock donations totaled \$3,463 for the year ended December 31, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$288,412 for the year ended December 31, 2018.
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 conjuncture with the Organization's financial statements for the year ended December 31, 2017 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.

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, 2018. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018.

The Organization's information and tax returns for the years ended December 31, 2016 through 2018 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

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, 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, 2018 and July 11, 2019, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE C - CASH AND CASH EQUIVALENTS

Cash and cash equivalents were comprised of the following as of December 31, 2018:

Non-interest bearing accounts	\$ 2,535,890
Cash on hand	<u>13,650</u>
	<u>\$ 2,549,540</u>

NOTE D - SUPPLEMENTAL CASH FLOW INFORMATION

The Organization paid \$339,789 in interest during the year ended December 31, 2018. During 2018, the Organization received in-kind stock donations totaling \$3,464. Insurance was financed during 2018 in the amount of \$98,703. During 2018, a note was refinanced in the amount of \$186,074.

NOTE E - PLEDGES RECEIVABLE

Pledges receivable of \$80,000 at December 31, 2018 consist of unconditional promises to give from individuals and private foundations. These contributions are restricted; \$40,000 is receivable in less than one year and \$40,000 is receivable in one to five years. No discount has been applied to the pledges receivable balance at December 31, 2018.

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, 2018 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, 2018 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

During 2018, the Organization's insured individual passed away and the Organization received the payout from the policies in the amount of \$425,000.

NOTE H - LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment owned by the Organization at December 31, 2018 were as follows:

Land	\$	2,843,649
Buildings and improvements		13,849,993
Leasehold improvements		42,261
Furniture, fixtures, and equipment		2,016,071
Vehicles		<u>578,291</u>
		19,330,265
Less accumulated depreciation		<u>(5,972,477)</u>
	\$	<u>13,357,788</u>

The Organization sold two properties during 2018 to an unrelated party for total gross proceeds of \$390,000.

Depreciation expense for the year ended December 31, 2018 was \$516,997.

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, 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of December 31, 2018. However, amounts already appropriated from the donor-restricted endowment for general expenditure within one year of December 31, 2018 have not been subtracted as unavailable.

Financial assets, at year-end	\$ 2,619,960
Less those unavailable for general expenditures within one year, due to:	
Subject to satisfaction of donor restrictions	<u>(89,384)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,530,576</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.

NOTE J - NOTES PAYABLE

The Organization's notes payable as of December 31, 2018 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	\$ 185,710
Note to insurance company, monthly payments of \$9,266, including interest at 6.48% through March 2019, uncollateralized	17,173

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE J - NOTES PAYABLE (Continued)

The Mission: (Continued)

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 \$1,108,664 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 \$11,213,096	1,108,664
Note to Trustmark, including interest at 5.75%, monthly principal and interest payments of \$1,706 and payable in full in December 2020, 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 \$11,213,096	185,942
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 \$8,001	9,926
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 \$8,744	9,926
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 \$8,960	3,950
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 \$509,479	382,316
Less, New Market Tax Credit unamortized debt issuance costs	(24,464)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE J - NOTES PAYABLE (Continued)

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	<u>(414,862)</u>
	<u>\$ 8,739,281</u>

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

Year Ending December 31,	Amounts
2019	\$ 261,217
2020	1,244,258
2021	511,232
2022	164,001
2023	176,742
Thereafter	<u>6,381,831</u>
	<u>\$ 8,739,281</u>

Interest expense related to the notes payable for the year ended December 31, 2018 was \$326,090.

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 \$3,926,312. 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 \$5,936,076. 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, 2018.

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 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.

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, 2018:

Relocation capital campaign	\$	42,996
Recovery/CDP programs		80,000
Other purposes		<u>6,388</u>
	<u>\$</u>	<u>129,384</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, 2018 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, 2017	\$ 12,182,471	\$ 1,571,128	\$ (1,026,263)	\$ (874,573)	\$ 11,852,763
Changes in net assets without donor restrictions	<u>90,339</u>	<u>-</u>	<u>(220,348)</u>	<u>21,713</u>	<u>(108,296)</u>
Balance, December 31, 2018	<u>\$ 12,272,810</u>	<u>\$ 1,571,128</u>	<u>\$ (1,246,611)</u>	<u>\$ (852,860)</u>	<u>\$ 11,744,467</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, 2017	\$ 79,425	\$ 42,996	\$ -	\$ -	\$ 122,421
Changes in net assets with donor restrictions	<u>6,963</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,963</u>
Balance, December 31, 2018	<u>\$ 86,388</u>	<u>\$ 42,996</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,384</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 has been renewed several times and currently requires a monthly rental of \$2,500; 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 \$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; the lease is now month-to-month at \$1,500 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.

In December 2018, the Mission entered into a one-year agreement for a ground lease at W. Hayes Street in Pensacola, Florida ending December 2019 for \$800 per month.

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

<u>Year Ending December 31,</u>	<u>Amounts</u>
2019	\$ 152,366
2020	123,666
2021	116,916
2022	116,916
2023	116,916
Thereafter	<u>113,316</u>
	<u>\$ 740,096</u>

The following is a summary of the leased property in service at December 31, 2018:

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>(248,711)</u>
	<u>\$ 1,422,314</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, 2018 were as follows:

Revenues	\$	167,382
Expenses		
Depreciation		40,995
Insurance		14,212
Repairs and maintenance		9,754
Utilities		<u>20,862</u>
		<u>85,823</u>
Net rental income	\$	<u>81,559</u>

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, 2018 for this land was \$52,500.

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. Rent expense for the year ended December 31, 2018 for this facility was \$36,552.

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. Rent expense for the year ended December 31, 2018 for this facility was \$44,400.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE P - OPERATING LEASES (Continued)

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, 2018 was \$11,909.

The Organization continued leasing eight vehicles during 2018. Rent expense for the year ended December 31, 2018 for these vehicles was \$119,007. 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 \$184,032 with two five-year renewal periods available. Rent expense for the year ended December 31, 2018 was \$184,032.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE P - OPERATING LEASES (Continued)

At December 31, 2018, 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>
2019	\$ 620,628
2020	570,009
2021	394,422
2022	288,463
2023	278,256
Thereafter	<u>1,994,876</u>
	<u>\$ 4,146,654</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 \$1,793,027 at December 31, 2018.

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 - 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 \$17,962 to the Plan for the year ended December 31, 2018.

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, 2018, and our report thereon dated July 11, 2019, 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 31 - 35 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 11, 2019

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS
DECEMBER 31, 2018

	<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	\$ 852,809	\$ 1,650,338	\$ 46,593	\$ -	\$ 2,549,540
Accounts receivable	30,420	-	-	-	30,420
Contribution receivable	-	-	-	-	-
Intercompany receivables	18,561	-	17,653	(36,214)	-
Pledges receivable, net	80,000	-	-	-	80,000
Contributed merchandise inventory	915,758	-	-	-	915,758
Purchased merchandise inventory	43,017	-	-	-	43,017
Prepaid expenses and deposits	230,558	-	175,733	-	406,291
Investments	200,250	-	-	(200,250)	-
Cash surrender value life insurance	-	-	-	-	-
Note receivable	5,277,000	-	-	-	5,277,000
Land, buildings, and equipment, net	8,633,857	-	5,103,731	(379,800)	13,357,788
Property held for sale, net	-	-	-	-	-
Total assets	<u>\$ 16,282,030</u>	<u>\$ 1,650,338</u>	<u>\$ 5,343,710</u>	<u>\$ (616,264)</u>	<u>\$ 22,659,814</u>
<u>LIABILITIES AND NET ASSETS</u>					
LIABILITIES					
Accounts payable	\$ 278,491	\$ -	\$ 1,116	\$ -	\$ 279,607
Accrued liabilities	196,417	-	1,877	-	198,294
Intercompany payables	-	36,214	-	(36,214)	-
Accrued compensated absences	280,920	-	-	-	280,920
Notes payable, net	1,879,143	-	6,587,328	272,810	8,739,281
Contingent note payable	1,225,243	-	-	-	1,225,243
Deposits payable	12,043	-	-	-	12,043
Deferred revenues	50,575	-	-	-	50,575
Total liabilities	3,922,832	36,214	6,590,321	236,596	10,785,963
NET ASSETS					
Without donor restrictions	12,272,810	1,571,128	(1,246,611)	(852,860)	11,744,467
With donor restrictions	86,388	42,996	-	-	129,384
Total net assets	<u>12,359,198</u>	<u>1,614,124</u>	<u>(1,246,611)</u>	<u>(852,860)</u>	<u>11,873,851</u>
Total liabilities and net assets	<u>\$ 16,282,030</u>	<u>\$ 1,650,338</u>	<u>\$ 5,343,710</u>	<u>\$ (616,264)</u>	<u>\$ 22,659,814</u>

See independent auditor's report on additional information.

CONSOLIDATING SCHEDULE OF ACTIVITIES
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS
YEAR ENDED DECEMBER 31, 2018

	Mission	Foundation	WRM QALICB	Eliminating Entries	Total
CHANGES IN NET ASSETS					
REVENUE AND SUPPORT					
Sales of purchased merchandise (less cost of \$160,923)	\$ 59,409	\$ -	\$ -	\$ -	\$ 59,409
Merchandise contributed for sale (less cost of recyclables of \$24,317)	6,797,852	-	-	-	6,797,852
Donated services and in-kind goods	498,841	-	-	-	498,841
Pledges revenue	80,000	-	-	-	80,000
Cash contributions	2,653,203	-	-	-	2,653,203
Interest	116,749	-	-	-	116,749
Investment income (loss) (951)	(951)	-	-	-	(951)
Gain on sale of assets	102,077	-	-	-	102,077
Participation fees	323,977	-	-	-	323,977
Special events (less direct expenses of \$6,105)	(1,835)	-	-	-	(1,835)
Other revenue	260,749	-	290,584	(290,584)	260,749
TOTAL REVENUE AND SUPPORT	10,890,071	-	290,584	(290,584)	10,890,071
EXPENSES					
Program services					
Missions	2,886,527	-	510,932	(312,297)	3,085,162
Thrift stores	4,666,038	-	-	-	4,666,038
Recycling center	1,231,516	-	-	-	1,231,516
Total program services	8,784,081	-	510,932	(312,297)	8,982,716
Supporting services					
General and administrative	1,334,922	-	-	-	1,334,922
Fundraising	673,766	-	-	-	673,766
Total supporting services	2,008,688	-	-	-	2,008,688
TOTAL EXPENSES	10,792,769	-	510,932	(312,297)	10,991,404
CHANGE IN NET ASSETS	97,302	-	(220,348)	21,713	(101,333)
NET ASSETS, BEGINNING OF YEAR	12,261,896	1,614,124	(1,026,263)	(874,573)	11,975,184
NET ASSETS (DEFICIT), END OF YEAR	\$ 12,359,198	\$ 1,614,124	\$ (1,246,611)	\$ (852,860)	\$ 11,873,851

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, 2018
(With comparative totals for 2017)

	Pensacola Mission	Mobile Mission	Transition Center	Recovery Center	Day Resource Center	Total Mission Expenses 2018	Total Mission Expenses 2017
Accounting and legal	\$ 3,393	\$ 3,668	\$ -	\$ -	\$ -	\$ 7,061	\$ 12,605
Advertising	1,452	1,380	51	73	17	2,973	2,212
Bank Charges	27	1,672	-	-	-	1,699	1,441
Banquets	123	-	19	27	6	175	64
Contracted services	4,902	3,757	2,389	3,021	7,096	21,165	26,909
Convention travel	3,858	4,101	-	-	-	7,959	1,192
Credit cards	-	-	-	-	-	-	-
Depreciation	80,633	144,492	40,315	55,501	83,669	354,610	364,536
Direct mail	-	-	-	-	-	-	-
Donations in-kind	337,654	119,047	-	-	-	456,701	460,864
Donations to others	2,215	-	5	8	2	2,230	100
Drug free program	446	724	291	1,181	-	2,642	2,508
Dues and subscriptions	1,335	1,452	9	13	40	2,849	7,816
Education and training	3,865	237	-	-	-	4,102	1,339
Insurance	36,032	66,398	10,602	15,516	10,432	138,980	155,168
Interest	9,741	289,022	545	778	182	300,268	315,853
Janitorial	19,039	15,304	9,248	13,807	1,819	59,217	65,178
Meals	13,922	7,020	6,173	9,316	63	36,494	53,269
Medical	497	9	113	168	-	787	577
Personnel benefits	35,296	30,498	12,290	30,853	1,213	110,150	83,763
Personnel costs	363,612	270,066	130,948	247,054	52,434	1,064,114	1,037,852
Postage	153	357	-	-	-	510	531
Rent	22,179	2,390	11,068	15,879	3,374	54,890	54,134
Repairs and maintenance	27,497	34,419	20,786	12,381	4,252	99,335	130,193
Supplies and small equipment	14,647	6,204	6,707	6,548	2,835	36,941	28,979
Sustenance	-	2,470	-	6,140	-	8,610	16,215
Taxes and licenses	1,421	280	609	871	196	3,377	3,646
Telephone	6,701	6,094	2,560	2,444	750	18,549	21,808
Utilities	56,705	66,699	36,141	39,210	22,815	221,570	218,360
Vehicles	25,562	21,689	8,044	11,909	-	67,204	58,631
Total	\$ 1,072,907	\$ 1,099,449	\$ 298,913	\$ 472,698	\$ 141,195	\$ 3,085,162	\$ 3,125,793

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, 2018
(With comparative totals for 2017)

	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	Auto Vacations	Total Thrift Store Expenses 2018	Total Thrift Store Expenses 2017
Accounting and legal	\$ 800	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 800	\$ -
Advertising	35,184	23,735	17,098	18,444	16,855	7,855	11,099	10,797	-	-	141,067	126,537
Bank charges	3,223	2,258	1,689	1,727	1,573	250	1,668	295	-	-	12,683	9,977
Banquets	-	-	-	-	-	-	-	-	-	-	-	294
Contracted services	32,330	3,906	3,162	3,560	2,206	1,441	1,563	1,204	-	-	49,372	88,118
Convention travel	808	1,150	870	1,213	1,163	808	808	1,761	3	-	8,584	6,818
Credit cards	24,333	14,334	10,965	10,370	10,499	3,107	7,027	81	-	-	80,716	77,763
Depreciation	27,021	41,935	23,951	1,099	14,285	966	2,592	971	-	3,339	116,159	121,600
Direct mail	-	-	-	-	-	-	-	-	-	-	-	-
Donations in-kind	9,112	1,627	3,834	8,169	3,238	2,140	339	-	-	-	28,459	14,797
Donations to others	-	11	-	-	-	-	-	3,805	-	-	3,816	10
Drug free program	2,057	2,453	1,373	1,733	797	221	41	144	-	-	8,819	8,002
Dues and subscriptions	648	675	687	88	737	648	762	62	-	-	4,302	8,131
Education and training	63	83	63	63	63	63	63	-	-	-	461	147
Insurance	50,286	23,195	26,914	26,270	25,791	8,276	13,525	2,224	-	92	181,573	167,728
Interest	9	9	9	9	9	9	9	9	-	-	592	1,421
Janitorial	4,181	3,669	2,606	2,215	2,065	779	1,284	1,547	-	-	18,346	20,618
Meals	486	401	431	315	317	394	998	1,098	-	-	4,440	2,796
Medical	120	-	-	134	-	-	-	-	-	-	254	84
Personnel benefits	66,159	35,598	17,721	13,190	33,007	12,137	13,100	554	-	-	191,466	159,563
Personnel costs	943,148	492,019	367,779	354,074	328,191	131,802	181,155	59,458	-	1,154	2,858,780	2,767,762
Postage	32	40	40	37	25	25	18	62	-	-	279	156
Rent	3,997	4,631	3,667	187,699	3,667	42,444	51,321	18,520	2,107	-	318,053	279,808
Repairs and maintenance	58,935	29,873	23,052	20,298	17,026	5,823	11,804	16,411	-	1,329	184,541	124,789
Supplies and small equipment	16,359	11,139	11,886	6,624	6,526	4,258	5,169	45,590	36	-	107,537	93,061
Sustenance	-	-	-	-	-	-	-	-	-	-	-	-
Taxes and licenses	3,544	286	2	2	2	2	2	80	-	-	3,920	4,368
Telephone	6,410	9,991	5,708	5,712	4,644	2,466	3,240	903	-	1,236	40,310	46,618
Utilities	96,883	53,040	26,306	48,494	31,701	12,880	21,997	6,417	-	-	297,718	268,776
Vehicles	810	348	378	348	348	348	348	-	-	-	2,928	2,459
Total	\$ 1,386,928	\$ 761,406	\$ 550,141	\$ 711,882	\$ 504,735	\$ 239,142	\$ 323,932	\$ 172,576	\$ 2,146	\$ 7,150	\$ 4,666,038	\$ 4,352,201

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, 2018
(With comparative totals for 2017)**

	Total Recycling Center Expenses 2018	Total Recycling Center Expenses 2017
Accounting and legal	\$ -	\$ -
Advertising	1,944	6,450
Bank charges	-	-
Banquets	-	-
Contracted services	94,704	158,490
Convention travel	183	324
Credit cards	-	-
Depreciation	14,780	19,115
Direct mail	-	-
Donations in-kind	6,413	5,186
Donations to others	-	-
Drug free program	3,684	2,443
Dues and subscriptions	1,029	4,985
Education and training	-	179
Insurance	53,568	52,698
Interest	22,527	24,350
Janitorial	1,702	1,877
Meals	519	315
Medical	-	-
Personnel benefits	44,825	42,090
Personnel costs	637,778	616,737
Postage	78	-
Rent	3,782	7,346
Repairs and maintenance	23,152	15,339
Supplies and small equipment	6,598	3,466
Sustenance	-	-
Taxes and licenses	1,421	497
Telephone	7,817	8,117
Utilities	32,538	37,990
Vehicles	272,474	259,518
Total	\$ 1,231,516	\$ 1,267,512

See independent auditor's report on additional information.