

CONSOLIDATED FINANCIAL STATEMENTS

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

DECEMBER 31, 2019

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of the Waterfront Rescue Mission, Inc. (a nonprofit organization) and Affiliated Organizations, which comprise the consolidated statement of financial position as of December 31, 2019, 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, 2019, and the changes in their net assets, functional expenses, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Waterfront Rescue Mission, Inc. and Affiliated Organizations' 2018 consolidated financial statements, and in our report dated July 11, 2019, 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, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Brown Thornton Accountants & Company, P.A.

Pensacola, Florida
July 15, 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

**DECEMBER 31, 2019
(With comparative totals for 2018)**

	<u>ASSETS</u>	
	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 2,311,324	\$ 2,549,540
Accounts receivable	40,278	30,420
Pledges receivable, net	40,000	80,000
Contributed merchandise inventory	948,248	915,758
Purchased merchandise inventory	26,710	43,017
Prepaid expenses and deposits	321,068	406,291
Note receivable	5,277,000	5,277,000
Land, buildings, and equipment, net	<u>13,100,040</u>	<u>13,357,788</u>
 Total assets	 <u>\$ 22,064,668</u>	 <u>\$ 22,659,814</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 238,147	\$ 279,607
Accrued liabilities	237,146	198,294
Accrued compensated absences	314,405	280,920
Notes payable, net	8,491,002	8,739,281
Contingent notes payable	1,225,243	1,225,243
Deposits payable	12,043	12,043
Deferred revenues	<u>45,116</u>	<u>50,575</u>
 Total liabilities	 10,563,102	 10,785,963
NET ASSETS		
Without donor restrictions	11,445,337	11,744,467
With donor restrictions	<u>56,229</u>	<u>129,384</u>
 Total net assets	 <u>11,501,566</u>	 <u>11,873,851</u>
 Total liabilities and net assets	 <u>\$ 22,064,668</u>	 <u>\$ 22,659,814</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, 2019
(With comparative totals for 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
CHANGES IN NET ASSETS				
REVENUE AND SUPPORT				
Sales of purchased merchandise				
(less cost of \$220,287 and \$160,923)	\$ 128,041	\$ -	\$ 128,041	\$ 59,409
Merchandise contributed for sale				
(less cost of recyclables of \$13,015 and \$24,317)	7,728,245	-	7,728,245	6,797,852
Donated services and in-kind goods	519,786	-	519,786	498,841
Pledges revenue	-	-	-	80,000
Cash contributions and grants	2,506,926	19,660	2,526,586	2,653,203
Interest	119,807	-	119,807	116,749
Investment income (loss)	3,400	-	3,400	(951)
Gain on sale of assets	(3,414)	-	(3,414)	102,077
Participation fees	339,413	-	339,413	323,977
Special events				
(less direct costs of \$12,469 and \$6,105)	8,406	-	8,406	(1,835)
Other revenue	212,675	-	212,675	260,749
Net assets released from restrictions	92,815	(92,815)	-	-
TOTAL REVENUE AND SUPPORT	11,656,100	(73,155)	11,582,945	10,890,071
EXPENSES				
Program services				
Missions	3,201,850	-	3,201,850	3,085,162
Thrift stores	5,395,208	-	5,395,208	4,666,038
Recycling center	1,352,350	-	1,352,350	1,231,516
Total program services	9,949,408	-	9,949,408	8,982,716
Supporting services				
General and administrative	1,246,790	-	1,246,790	1,334,922
Fundraising	759,032	-	759,032	673,766
Total supporting services	2,005,822	-	2,005,822	2,008,688
TOTAL EXPENSES	11,955,230	-	11,955,230	10,991,404
CHANGE IN NET ASSETS	(299,130)	(73,155)	(372,285)	(101,333)
NET ASSETS, BEGINNING OF YEAR	11,744,467	129,384	11,873,851	11,975,184
NET ASSETS, END OF YEAR	\$ 11,445,337	\$ 56,229	\$ 11,501,566	\$ 11,873,851

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, 2019
(With comparative totals for 2018)

	Missions	Thrift Stores	Recycling Center	Total Program Services	General and Administrative	Fund Raising	Total Supporting Services	Total Expenses 2019	Total Expenses 2018
Accounting and legal	\$ 3,267	\$ 330	\$ -	\$ 3,597	\$ 61,027	\$ 5,860	\$ 66,887	\$ 70,484	\$ 86,310
Advertising	3,457	182,390	1,687	187,534	2,072	144,768	146,840	334,374	288,412
Bank charges	110	13,181	18	13,309	16,539	165	16,704	30,013	29,440
Banquets	378	-	-	378	-	-	-	378	862
Contracted services	33,712	31,218	112,517	177,447	43,153	48,860	92,013	269,460	241,925
Convention travel	10,598	21,234	1,130	32,962	11,638	2,324	13,962	46,924	28,824
Credit card	383	106,556	154	107,093	29	12,043	12,072	119,165	88,849
Depreciation	342,389	109,613	17,235	469,237	26,836	-	26,836	496,073	516,997
Direct mail	-	-	-	-	-	439,066	439,066	439,066	377,807
Donations in-kind	427,018	12,163	5,225	444,406	5,597	-	5,597	450,003	491,573
Donations to others	125	4,537	-	4,662	17,735	-	17,735	22,397	12,333
Drug free program	2,682	9,856	2,434	14,972	140	72	212	15,184	15,398
Dues and subscriptions	3,559	5,833	215	9,607	11,029	1,497	12,526	22,133	21,007
Education and training	12,115	496	-	12,611	1,374	196	1,570	14,181	10,249
Insurance	109,084	241,883	50,618	401,585	10,789	-	10,789	412,374	396,715
Interest	288,928	3,550	22,739	315,217	3,203	-	3,203	318,420	326,090
Janitorial	73,161	21,220	2,025	96,406	869	-	869	97,275	80,048
Meals	16,240	3,787	394	20,421	2,014	196	2,210	22,631	45,204
Medical	760	314	-	1,074	-	-	-	1,074	1,041
Personnel benefits	118,665	203,568	61,751	383,984	108,361	907	109,268	493,252	462,494
Personnel costs	1,185,849	3,350,379	710,706	5,246,934	764,347	98,012	862,359	6,109,293	5,487,976
Postage	379	946	-	1,325	18,991	2,709	21,700	23,025	19,416
Rent	57,958	461,276	4,977	524,211	53,663	-	53,663	577,874	420,015
Repairs and maintenance	114,186	109,958	24,529	248,673	45,958	663	46,621	295,294	352,919
Supplies and small equipment	35,724	100,918	5,020	141,662	7,676	250	7,926	149,588	163,858
Sustenance	6,635	-	-	6,635	-	-	-	6,635	8,610
Taxes and licenses	3,291	12,131	985	16,407	525	1,000	1,525	17,932	18,659
Telephone	22,365	43,140	7,724	73,229	21,944	432	22,376	95,605	89,488
Utilities	259,406	331,793	31,628	622,827	11,270	-	11,270	634,097	565,572
Vehicles	69,426	12,938	288,639	371,003	11	12	23	371,026	343,313
Total	\$ 3,201,850	\$ 5,395,208	\$ 1,352,350	\$ 9,949,408	\$ 1,246,790	\$ 759,032	\$ 2,005,822	\$ 11,955,230	\$ 10,991,404

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, 2019
(With comparative totals for 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (372,285)	\$ (101,333)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Merchandise contributed for sale, net	(7,728,245)	(6,797,852)
Sales of contributed merchandise	7,695,755	6,626,701
In-kind stock donation	(2,329)	(3,464)
In-kind property donation	(63,000)	-
Depreciation	496,073	516,997
Amortization of loan costs	30,864	30,857
Gain on sale of property and equipment	3,414	(102,077)
Gain on life insurance proceeds	-	(62,979)
(Increase) decrease in operating assets:		
Accounts receivable	(9,858)	(19,999)
Pledges receivable	40,000	(40,000)
Inventory of purchased goods	16,307	11,870
Prepaid expenses	182,952	96,305
Increase (decrease) in operating liabilities:		
Accounts payable	(41,460)	118,060
Accrued liabilities	38,852	68,103
Accrued compensated absences	33,485	(3,397)
Deferred revenues	(5,459)	13,929
Net cash provided by operating activities	315,066	351,721
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from life insurance policies	-	425,000
Purchase of property and equipment	(180,389)	(43,719)
Proceeds from sale of property and equipment	1,650	358,942
Proceeds from sale of stock	2,329	3,464
Net cash provided by (used in) investing activities	(176,410)	743,687
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(376,872)	(372,514)
Net cash used in financing activities	(376,872)	(372,514)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(238,216)	722,894
Cash and cash equivalents, beginning of year	2,549,540	1,826,646
Cash and cash equivalents, end of year	\$ 2,311,324	\$ 2,549,540

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE A - ORGANIZATION AND PURPOSE OF OPERATIONS

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE A - ORGANIZATION AND PURPOSE OF OPERATIONS (Continued)

In November 2013, the Mission entered into a New Market Tax Credit (NMTC) transaction, as outlined in Internal Revenue Code (IRC) Section 45D, to help finance the construction of its new Mobile Mission Homeless Campus. WRM QALICB, LLC (WRM QALICB) was formed in October 2013 under the laws of Alabama in order to meet the necessary structuring requirements to qualify for the NMTC transaction. WRM QALICB holds the Mobile property and is leased back to the Mission for the sole purpose of operations and furthering its mission to aid the homeless. (See Note K 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, 2019.
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, 2019.

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, 2019. 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. 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, 2019.
11. Land, Buildings, and Equipment - Land, buildings, and equipment are stated at cost, or if donated, at the estimated fair market value on the date of the gift. It is the policy of the Organization to capitalize purchases of property and equipment in excess of \$5,000. Contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those assets must be maintained, the Organization reports expirations of donor restrictions when the acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12. 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.
13. 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.

14. 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, 2019 to be \$454,457. In-kind stock donations and property totaled \$2,329 and \$63,000, respectively, for the year ended December 31, 2019.

15. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16. 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.
17. 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.
18. 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 \$334,374 for the year ended December 31, 2019.
19. 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, 2018 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.

20. 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, 2019. 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, 2019.

The Organization's information and tax returns for the years ended December 31, 2017 through 2019 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

21. 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, 2020, but early adoption is permitted. The Organization plans to adopt this ASU for its year ending December 31, 2021. The Organization is currently evaluating the effect of adopting the new standard on the Organization's financial statements.
22. Events Occurring After the Reporting Date - The Waterfront Rescue Mission, Inc. has evaluated events and transactions that occurred between December 31, 2019 and July 15, 2020, 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, 2019:

	<u>2019</u>
Interest bearing accounts	\$ 1,353,348
Non-interest bearing accounts	944,326
Cash on hand	<u>13,650</u>
	<u>\$ 2,311,324</u>

NOTE D - SUPPLEMENTAL CASH FLOW INFORMATION

The Organization paid \$330,283 in interest during the year ended December 31, 2019. During 2019, the Organization received in-kind stock donations totaling \$2,329. Insurance was financed during 2019 in the amount of \$97,729. The Organization received an in-kind property donation of \$63,000 in 2019.

NOTE E - PLEDGES RECEIVABLE

Pledges receivable of \$40,000 at December 31, 2019 consist of unconditional promises to give from individuals and private foundations. These contributions are restricted; \$40,000 is receivable in less than one year. No discount has been applied to the pledges receivable balance at December 31, 2019.

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, 2019 was \$5,277,000. (See Note K for a further discussion of the NMTC financing.)

Interest income received on the note receivable for the year ended December 31, 2019 was \$116,388.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE G - LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment owned by the Organization at December 31, 2019 were as follows:

Land	\$	2,843,649
Buildings and improvements		13,983,546
Leasehold improvements		42,261
Furniture, fixtures, and equipment		1,909,282
Vehicles		<u>568,422</u>
		19,347,160
Less accumulated depreciation		<u>(6,247,120)</u>
	\$	<u>13,100,040</u>

Depreciation expense for the year ended December 31, 2019 was \$496,073.

NOTE H - FINANCIAL ASSETS AVAILABLE FOR GENERAL EXPENDITURES

The following reflects the Organization's financial assets as of December 31, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of December 31, 2019. However, amounts already appropriated from the donor-restricted endowment for general expenditure within one year of December 31, 2019 have not been subtracted as unavailable.

Financial assets, at year-end	\$ 2,391,602
Less those unavailable for general expenditures within one year, due to:	
Subject to satisfaction of donor restrictions	<u>(56,229)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,335,373</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 I - NOTES PAYABLE

The Organization's notes payable as of December 31, 2019 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	\$ 92,852
Note to insurance company, monthly payments of \$9,175, including interest at 6.00% through February 2020, uncollateralized	17,769
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 \$971,149 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 \$11,053,389	971,149
Less, New Market Tax Credit unamortized debt issuance costs	(9,135)
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 \$11,053,389	170,230
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 \$505,450	372,464
Less, unamortized debt issuance costs	(7,329)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE I - 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>(391,998)</u>
	<u>\$ 8,491,002</u>

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

Year Ending December 31,	Amounts
2020	\$ 1,247,041
2021	507,177
2022	158,204
2023	169,974
2024	182,357
Thereafter	<u>6,226,249</u>
	<u>\$ 8,491,002</u>

Interest expense related to the notes payable for the year ended December 31, 2019 was \$329,333.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE J - 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 \$3,784,384. 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 \$5,749,104. 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, 2019.

NOTE K - 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 K - 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 I 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 L - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31, 2019:

Respite dorm equipment and supplies	\$	9,841
Recovery/CDP programs		40,000
Other purposes		<u>6,388</u>
	\$	<u>56,229</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE M - CHANGES IN CONSOLIDATED NET ASSETS

Changes in the consolidated net assets relating to the Mission and affiliates for the year ended December 31, 2019 are as follows:

	Mission	Foundation	WRM QALICB	Eliminating Entries	Total
Net assets without donor restrictions:					
Balance, December 31, 2018	\$ 12,272,810	\$ 1,571,128	\$ (1,246,611)	\$ (852,860)	\$ 11,744,467
Changes in net assets without donor restrictions	158,846	(260,776)	(218,913)	21,713	(299,130)
Balance, December 31, 2019	\$ 12,431,656	\$ 1,310,352	\$ (1,465,524)	\$ (831,147)	\$ 11,445,337
	Mission	Foundation	WRM QALICB	Eliminating Entries	Total
Net assets with donor restrictions:					
Balance, December 31, 2018	\$ 86,388	\$ 42,996	\$ -	\$ -	\$ 129,384
Changes in net assets with donor restrictions	(73,155)	-	-	-	(73,155)
Balance, December 31, 2019	\$ 13,233	\$ 42,996	\$ -	\$ -	\$ 56,229

NOTE N - GRANT REVENUE

The Mission was awarded a grant to provide services for the homeless totaling \$40,150 for the period of July 2019 through June 2020 and \$57,812 for the period of July 2019 through June 2020.

NOTE O - OTHER REVENUE

The Mission's meals revenue is included in other revenue on the statement of activities in the amount of \$49,872, net of direct costs of \$49,872.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE P - SUBLEASE RENTAL INCOME

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

The Mission entered into a sublease agreement in November 2013 for the Mobile Mission Homeless Campus. The lease commenced January 1, 2014 and expires on December 31, 2024. The subtenant is leasing approximately 7,500 square feet. Rent is \$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 I).

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

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

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. This lease was terminated in September 2019.

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

NOTE P - SUBLEASE RENTAL INCOME (Continued)

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

<u>Year Ending December 31,</u>	<u>Amounts</u>
2020	\$ 140,916
2021	122,916
2022	116,916
2023	116,916
2024	116,916
Thereafter	<u>-</u>
	<u>\$ 614,580</u>

The following is a summary of the leased property in service at December 31, 2019:

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>(279,438)</u>
	<u>\$ 1,391,587</u>

Rental revenue and expenses for the year ended December 31, 2019 were as follows:

Revenues	\$ 169,882
Expenses	
Depreciation	40,273
Insurance	13,512
Repairs and maintenance	11,440
Utilities	<u>24,587</u>
	<u>89,812</u>
Net rental income	<u>\$ 80,070</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE Q - 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, 2019 for this land was \$53,700.

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, 2019 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, 2019 for this facility was \$44,400.

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

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, 2019 was \$11,916.

The Organization continued leasing eight vehicles during 2019. Rent expense for the year ended December 31, 2019 for these vehicles was \$120,194. The leases on the vehicles expire in January 2021 for three of the vehicles, in April 2021 for one of the vehicles, in August 2022 for one of the vehicles, and in June 2026 for three of the vehicles.

During May 2016, the Organization sold property in Fort Walton Beach and leased back the property to continue operations of the thrift store. The lease for the facility is under a five-year operating lease requiring annual rental payments of \$184,032 with two five-year renewal periods available. Rent expense for the year ended December 31, 2019 was \$184,032.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE Q - OPERATING LEASES (Continued)

In 2018, the Organization entered into a lease for a facility in Mobile under a five-year operating lease requiring annual rental payments of \$224,256 beginning March 2019, expiring 2024. Rent expense for the year ended December 31, 2019 was \$186,875.

At December 31, 2019, 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>
2020	\$ 641,456
2021	469,655
2022	379,031
2023	334,571
2024	144,577
Thereafter	<u>1,978,801</u>
	<u>\$ 3,948,091</u>

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

NOTE R - 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 \$1,365,423 at December 31, 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE S - COMMITMENTS, CONTINGENCIES, AND RISKS

As indicated in Note K, 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 K, the Organization could be exposed to the failure of the put option being exercised or an unfavorable call option result.

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 \$17,860 to the Plan for the year ended December 31, 2019.

NOTE U - SUBSEQUENT EVENTS

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of business and issued stay at home orders for individuals. While the disruption is currently expected to be temporary, there is considerable uncertainty surrounding the duration of the closings. Therefore, the Organization expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

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

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, 2019, and our report thereon dated July 15, 2020, 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 29 - 33 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 15, 2020

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS
DECEMBER 31, 2019

<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	\$ 898,670	\$ 1,353,348	\$ 59,306	\$ -	\$ 2,311,324
Accounts receivable	40,278	-	-	-	40,278
Intercompany receivables	-	-	17,626	(17,626)	-
Pledges receivable, net	40,000	-	-	-	40,000
Contributed merchandise inventory	948,248	-	-	-	948,248
Purchased merchandise inventory	26,710	-	-	-	26,710
Prepaid expenses and deposits	222,706	-	98,362	-	321,068
Investments	200,250	-	-	(200,250)	-
Note receivable	5,277,000	-	-	-	5,277,000
Land, buildings, and equipment, net	<u>8,485,221</u>	<u>-</u>	<u>4,983,819</u>	<u>(369,000)</u>	<u>13,100,040</u>
Total assets	<u>\$ 16,139,083</u>	<u>\$ 1,353,348</u>	<u>\$ 5,159,113</u>	<u>\$ (586,876)</u>	<u>\$ 22,064,668</u>
<u>LIABILITIES AND NET ASSETS</u>					
LIABILITIES					
Accounts payable	\$ 236,492	\$ -	\$ 1,655	\$ -	\$ 238,147
Accrued liabilities	235,269	-	1,877	-	237,146
Intercompany payables	17,626	-	-	(17,626)	-
Accrued compensated absences	314,405	-	-	-	314,405
Notes payable, net	1,608,000	-	6,621,105	261,897	8,491,002
Contingent note payable	1,225,243	-	-	-	1,225,243
Deposits payable	12,043	-	-	-	12,043
Deferred revenues	<u>45,116</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,116</u>
Total liabilities	3,694,194	-	6,624,637	244,271	10,563,102
NET ASSETS					
Without donor restrictions	12,388,660	1,353,348	(1,465,524)	(831,147)	11,445,337
With donor restrictions	<u>56,229</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,229</u>
Total net assets	<u>12,444,889</u>	<u>1,353,348</u>	<u>(1,465,524)</u>	<u>(831,147)</u>	<u>11,501,566</u>
Total liabilities and net assets	<u>\$ 16,139,083</u>	<u>\$ 1,353,348</u>	<u>\$ 5,159,113</u>	<u>\$ (586,876)</u>	<u>\$ 22,064,668</u>

See independent auditor's report on additional information.

CONSOLIDATING SCHEDULE OF ACTIVITIES
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS
YEAR ENDED DECEMBER 31, 2019

	<u>Mission</u>	<u>Foundation</u>	<u>WRM QALICB</u>	<u>Eliminating Entries</u>	<u>Total</u>
CHANGES IN NET ASSETS					
REVENUE AND SUPPORT					
Sales of purchased merchandise (less cost of \$220,287)	\$ 128,041	\$ -	\$ -	\$ -	\$ 128,041
Merchandise contributed for sale (less cost of recyclables of \$13,015)	7,728,245	-	-	-	7,728,245
Donated services and in-kind goods	519,786	-	-	-	519,786
Pledges revenue	-	-	-	-	-
Cash contributions	2,790,371	-	-	(263,785)	2,526,586
Interest	116,798	3,009	-	-	119,807
Investment income (loss)	3,400	-	-	-	3,400
Gain on sale of assets	(3,414)	-	-	-	(3,414)
Participation fees	339,413	-	-	-	339,413
Special events (less direct expenses of \$6,105)	8,406	-	-	-	8,406
Other revenue	<u>212,675</u>	<u>-</u>	<u>312,637</u>	<u>(312,637)</u>	<u>212,675</u>
TOTAL REVENUE AND SUPPORT	11,843,721	3,009	312,637	(576,422)	11,582,945
EXPENSES					
Program services					
Missions	3,004,650	-	531,550	(334,350)	3,201,850
Thrift stores	5,395,208	-	-	-	5,395,208
Recycling center	<u>1,352,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,352,350</u>
Total program services	9,752,208	-	531,550	(334,350)	9,949,408
Supporting services					
General and administrative	1,246,790	-	-	-	1,246,790
Fundraising	<u>759,032</u>	<u>263,785</u>	<u>-</u>	<u>(263,785)</u>	<u>759,032</u>
Total supporting services	2,005,822	263,785	-	(263,785)	2,005,822
TOTAL EXPENSES	11,758,030	263,785	531,550	(598,135)	11,955,230
CHANGE IN NET ASSETS	85,691	(260,776)	(218,913)	21,713	(372,285)
NET ASSETS, BEGINNING OF YEAR	12,359,198	1,614,124	(1,246,611)	(852,860)	11,873,851
NET ASSETS (DEFICIT), END OF YEAR	\$ 12,444,889	\$ 1,353,348	\$ (1,465,524)	\$ (831,147)	\$ 11,501,566

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, 2019
(With comparative totals for 2018)

	Pensacola Mission	Mobile Mission	Transition Center	Recovery Center	Day Resource Center	Total Mission Expenses 2019	Total Mission Expenses 2018
Accounting and legal	\$ 245	\$ 3,022	\$ -	\$ -	\$ -	\$ 3,267	\$ 7,061
Advertising	1,979	1,362	42	60	14	3,457	2,973
Bank Charges	-	110	-	-	-	110	1,699
Banquets	-	58	320	-	-	378	175
Contracted services	12,020	6,443	3,510	4,767	6,972	33,712	21,165
Convention travel	5,292	4,528	-	778	-	10,598	7,959
Credit cards	284	99	-	-	-	383	-
Depreciation	95,906	139,588	38,937	55,141	12,817	342,389	354,610
Direct mail	-	-	-	-	-	-	-
Donations in-kind	304,110	122,908	-	-	-	427,018	456,701
Donations to others	125	-	-	-	-	125	2,230
Drug free program	1,520	661	186	315	-	2,682	2,642
Dues and subscriptions	694	2,803	9	13	40	3,559	2,849
Education and training	3,240	4,198	788	3,859	30	12,115	4,102
Insurance	26,874	54,240	10,898	11,849	5,223	109,084	138,980
Interest	5,471	282,049	510	728	170	288,928	300,268
Janitorial	21,143	24,496	10,108	15,155	2,259	73,161	59,217
Meals	4,200	9,098	1,177	1,765	-	16,240	36,494
Medical	342	-	167	251	-	760	787
Personnel benefits	53,303	16,005	20,483	27,383	1,491	118,665	110,150
Personnel costs	440,268	322,877	109,850	258,317	54,537	1,185,849	1,064,114
Postage	157	134	35	53	-	379	510
Rent	54,543	1,383	88	1,944	-	57,958	54,890
Repairs and maintenance	36,078	41,487	13,751	17,394	5,476	114,186	99,335
Supplies and small equipment	10,042	11,878	4,508	7,109	2,187	35,724	36,941
Sustenance	-	585	-	6,050	-	6,635	8,610
Taxes and licenses	2,661	202	392	36	-	3,291	3,377
Telephone	11,061	7,619	2,083	245	1,357	22,365	18,549
Utilities	80,723	79,497	42,840	45,557	10,789	259,406	221,570
Vehicles	24,485	21,627	9,326	13,988	-	69,426	67,204
Total	\$ 1,196,766	\$ 1,158,957	\$ 270,008	\$ 472,757	\$ 103,362	\$ 3,201,850	\$ 3,085,162

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, 2019
(With comparative totals for 2018)

	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	Online Thrift Store	Auto Vacations	Total Thrift Store Expenses 2019	Total Thrift Store Expenses 2018
Accounting and legal	\$ 330	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 330	\$ 800
Advertising	36,275	24,200	16,533	17,225	15,628	5,441	8,755	57,961	372	-	182,390	141,067
Bank charges	2,276	2,706	1,619	1,491	1,526	143	1,989	1,431	-	-	13,181	12,688
Banquets	-	-	-	-	-	-	-	-	-	-	-	-
Contracted services	11,791	6,538	1,771	4,175	2,426	1,074	1,158	2,285	-	-	31,218	49,372
Convention travel	2,493	3,013	2,493	2,663	2,548	2,493	2,520	3,001	10	-	21,234	8,584
Credit cards	25,774	20,806	13,416	11,876	11,366	4,037	7,470	9,810	2,001	-	106,556	80,716
Depreciation	22,578	40,440	21,287	2,269	13,738	420	1,461	4,803	-	2,617	109,613	116,159
Direct mail	-	-	-	-	-	-	-	-	-	-	-	-
Donations in-kind	4,569	544	1,598	2,248	2,343	276	585	-	-	-	12,163	28,459
Donations to others	9	20	9	9	9	9	9	4,463	-	-	4,537	3,816
Drug free program	2,807	2,123	575	1,187	755	143	251	1,907	108	-	9,856	8,819
Dues and subscriptions	531	812	656	706	706	531	531	696	664	-	5,833	4,302
Education and training	62	62	62	62	62	62	62	62	-	-	496	461
Insurance	67,441	38,857	31,757	33,104	29,168	8,076	15,129	18,951	-	-	241,883	181,573
Interest	-	-	-	-	-	-	-	-	-	-	-	-
Janitorial	4,565	3,909	2,157	2,892	2,522	690	1,347	3,550	223	-	21,220	18,346
Meals	482	383	329	366	428	428	708	663	-	-	3,787	4,440
Medical	314	-	-	-	-	-	-	-	-	-	314	254
Personnel benefits	65,579	29,486	22,086	9,292	31,154	10,618	17,724	17,132	497	-	203,568	191,466
Personnel costs	935,165	525,404	385,125	369,989	338,086	155,969	185,642	416,794	38,205	-	3,350,379	2,858,780
Postage	135	120	121	114	116	109	106	125	-	-	946	279
Rent	330	221	-	184,267	-	-	46,536	187,019	4,215	-	461,276	318,053
Repairs and maintenance	30,198	13,869	18,659	10,283	15,768	3,458	6,255	8,680	1,459	1,329	109,958	184,541
Supplies and small equipment	24,152	10,200	9,476	8,811	7,256	4,396	8,125	4,954	23,548	-	100,918	107,537
Sustenance	-	-	-	-	-	-	-	-	-	-	-	-
Taxes and licenses	3,527	701	851	2	2	2	6,642	149	-	255	12,131	3,920
Telephone	4,803	9,570	6,676	5,516	5,214	2,596	3,377	4,542	525	321	43,140	40,310
Utilities	95,694	46,803	24,212	44,711	34,656	12,215	20,147	53,355	-	-	381,793	297,718
Vehicles	1,003	1,433	1,433	1,433	1,433	1,433	3,337	1,433	-	-	12,938	2,928
Total	\$ 1,342,883	\$ 782,220	\$ 562,901	\$ 714,691	\$ 516,910	\$ 253,307	\$ 339,866	\$ 806,081	\$ 71,827	\$ 4,522	\$ 5,395,208	\$ 4,666,038

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, 2019
(With comparative totals for 2018)**

	Total Recycling Center Expenses 2019	Total Recycling Center Expenses 2018
Accounting and legal	\$ -	\$ -
Advertising	1,687	1,944
Bank charges	18	-
Banquets	-	-
Contracted services	112,517	94,704
Convention travel	1,130	183
Credit cards	154	-
Depreciation	17,235	14,780
Direct mail	-	-
Donations in-kind	5,225	6,413
Donations to others	-	-
Drug free program	2,434	3,684
Dues and subscriptions	215	1,029
Education and training	-	-
Insurance	50,618	53,568
Interest	22,739	22,527
Janitorial	2,025	1,702
Meals	394	519
Medical	-	-
Personnel benefits	61,751	44,825
Personnel costs	710,706	637,778
Postage	-	78
Rent	4,977	3,782
Repairs and maintenance	24,529	23,152
Supplies and small equipment	5,020	6,598
Sustenance	-	-
Taxes and licenses	985	1,421
Telephone	7,724	7,817
Utilities	31,628	32,538
Vehicles	288,639	272,474
Total	\$ 1,352,350	\$ 1,231,516

See independent auditor's report on additional information.