

CONSOLIDATED FINANCIAL STATEMENTS

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

DECEMBER 31, 2016

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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, 2016, 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, 2016, 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' 2015 consolidated financial statements, and in our report dated June 7, 2016, 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, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Brown Thornton Paccetta & Company, P. A.

Pensacola, Florida
July 19, 2017

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

DECEMBER 31, 2016
(With comparative totals for 2015)

	<u>ASSETS</u>	
	2016	2015
ASSETS		
Cash and cash equivalents	\$ 809,617	\$ 421,442
Accounts receivable	25,095	49,978
Contribution receivable	-	104,103
Pledges receivable, net	130,000	120,865
Contributed merchandise inventory	759,430	1,011,415
Purchased merchandise inventory	138,403	205,155
Prepaid expenses and deposits	546,574	665,217
Investments	20,025	9,134
Cash surrender value life insurance	352,985	335,654
Note receivable	5,277,000	5,277,000
Land, buildings, and equipment, net	14,658,553	16,640,978
Total assets	\$ 22,717,682	\$ 24,840,941
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 284,823	\$ 255,805
Accrued liabilities	110,363	116,920
Line of credit	-	200,000
Accrued compensated absences	348,934	416,725
Notes payable, net	9,234,805	9,361,228
Contingent note payable	1,225,243	1,225,243
Deposits payable	12,043	12,043
Deferred revenues	40,691	45,333
Total liabilities	11,256,902	11,633,297
NET ASSETS		
Unrestricted	11,324,624	13,132,168
Temporarily restricted	136,156	75,476
Total net assets	11,460,780	13,207,644
Total liabilities and net assets	\$ 22,717,682	\$ 24,840,941

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, 2016
(With comparative totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
CHANGES IN NET ASSETS				
REVENUE AND SUPPORT				
Sales of purchased merchandise (less cost of \$635,099 and \$803,322)	\$ 314,932	\$ -	\$ 314,932	\$ 434,761
Merchandise contributed for sale (less cost of recyclables of \$6,786 and \$21,301)	6,335,259	-	6,335,259	7,368,677
Donated services and in-kind goods	568,463	-	568,463	697,451
Pledges revenue	5	120,000	120,005	149,997
Cash contributions	2,123,251	71,603	2,194,854	2,579,302
Interest	134,012	-	134,012	125,662
Investment income	(355)	-	(355)	(1,986)
Gain on sale of assets	159,252	-	159,252	13,212
Participation fees	34,869	-	34,869	58,697
Special events (less direct costs of \$76 and \$15,923)	148	-	148	(11,610)
Other revenue	185,476	-	185,476	237,563
Net assets released from restrictions	<u>130,923</u>	<u>(130,923)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	9,986,235	60,680	10,046,915	11,651,726
EXPENSES				
Program services				
Missions	3,899,244	-	3,899,244	5,298,571
Bargain centers	4,509,799	-	4,509,799	4,938,301
Recycling centers	<u>1,178,067</u>	<u>-</u>	<u>1,178,067</u>	<u>335,283</u>
Total program services	9,587,110	-	9,587,110	10,572,155
Supporting services				
General and administrative	1,567,292	-	1,567,292	1,720,650
Fundraising	<u>639,377</u>	<u>-</u>	<u>639,377</u>	<u>876,525</u>
Total supporting services	<u>2,206,669</u>	<u>-</u>	<u>2,206,669</u>	<u>2,597,175</u>
TOTAL EXPENSES	<u>11,793,779</u>	<u>-</u>	<u>11,793,779</u>	<u>13,169,330</u>
CHANGE IN NET ASSETS	(1,807,544)	60,680	(1,746,864)	(1,517,604)
NET ASSETS, BEGINNING OF YEAR	<u>13,132,168</u>	<u>75,476</u>	<u>13,207,644</u>	<u>14,725,248</u>
NET ASSETS, END OF YEAR	<u>\$ 11,324,624</u>	<u>\$ 136,156</u>	<u>\$ 11,460,780</u>	<u>\$ 13,207,644</u>

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, 2016
(With comparative totals for 2015)

	Missions	Bargain Centers	Recycling Centers	Total Program Services	General and Administrative	Fund Raising	Total Supporting Services	Total Expenses 2016	Total Expenses 2015
Accounting and legal	\$ 29,579	\$ -	\$ 2,250	\$ 31,829	\$ 61,416	\$ 53,548	\$ 114,964	\$ 146,793	\$ 135,082
Advertising	3,920	120,006	50	123,976	69,273	-	69,273	193,249	188,946
Bank charges	1,786	6,676	-	8,462	15,563	299	15,862	24,324	25,865
Banquets	-	-	-	-	188	-	188	188	6,829
Bulk mail	-	-	-	-	-	508,690	508,690	508,690	606,475
Contracted services	28,868	14,174	32,655	75,697	22,485	31,626	54,111	129,808	179,300
Convention travel	7,933	11,196	365	19,494	11,420	-	11,420	30,914	10,024
Credit card	-	82,440	-	82,440	-	6,955	6,955	89,395	92,676
Depreciation	432,877	127,328	17,656	577,861	54,575	3,106	57,681	635,542	741,610
Donations in-kind	534,616	16,621	841	552,078	-	-	-	552,078	599,942
Donations to others	150	10	-	160	4,556	-	4,556	4,716	5,433
Drug free program	4,031	15,290	3,930	23,251	314	-	314	23,565	22,425
Dues and subscriptions	5,067	11,375	1,876	18,318	13,989	447	14,436	32,754	48,856
Education and training	12,535	400	149	13,084	5,752	-	5,752	18,836	55,273
Insurance	178,933	174,109	53,745	406,787	41,486	-	41,486	448,273	466,077
Interest	383,232	1,777	7,287	342,296	6,058	-	6,058	348,354	355,240
Janitorial	62,183	24,259	1,322	87,764	545	-	545	88,309	118,464
Meals	64,731	3,224	106	68,061	3,645	29	3,674	71,735	205,706
Medical	2,180	160	-	2,340	-	-	-	2,340	9,149
Miscellaneous	11,571	5,642	1,920	19,133	4,038	-	4,038	23,171	13,640
Personnel benefits	152,426	181,732	12,644	346,802	140,504	3,529	144,033	490,835	600,828
Personnel costs	1,432,410	2,883,027	634,837	4,950,274	968,154	27,956	996,110	5,946,384	6,417,651
Postage	1,040	619	-	1,659	21,647	(936)	20,711	22,370	12,172
Rent	51,201	203,719	41,460	296,380	16,825	-	16,825	313,205	179,340
Repairs and maintenance	122,551	174,350	19,074	315,975	47,881	1,442	49,323	365,298	395,748
Supplies and small equipment	24,098	91,948	19,012	135,058	6,512	70	6,582	141,640	246,759
Sustenance	28,800	-	-	28,800	-	-	-	28,800	42,745
Taxes and licenses	6,437	11,335	9,379	27,151	972	2,000	2,972	30,123	16,560
Telephone	33,117	45,902	8,431	87,450	24,841	510	25,351	112,801	131,084
Uncollectable pledges	-	-	-	-	-	-	-	-	15,350
Utilities	257,883	297,298	25,414	580,595	19,594	-	19,594	600,189	793,747
Vehicles	75,089	5,182	283,664	363,935	5,059	106	5,165	369,100	430,334
Total	\$ 3,899,244	\$ 4,509,799	\$ 1,178,067	\$ 9,587,110	\$ 1,567,292	\$ 639,377	\$ 2,206,669	\$ 11,793,779	\$ 13,169,330

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, 2016
(With comparative totals for 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,746,864)	\$ (1,517,604)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Merchandise contributed for sale, net of cost of recyclables	(6,335,259)	(7,368,677)
Sales of contributed merchandise	6,587,244	7,419,525
In-kind stock donation	(16,385)	(97,510)
Uncollectable pledges	-	15,350
Depreciation	635,542	742,253
Interest added to certificates of deposit	-	(54)
Amortization of loan costs	30,503	31,554
Unrealized loss on investments	-	1,680
Gain on sale of property and equipment	(159,252)	(13,212)
Increase in cash surrender value of life insurance	(17,331)	(12,559)
(Increase) decrease in operating assets:		
Accounts receivable	24,883	(37,916)
Insurance proceeds receivable	-	175,689
Contributions receivable	104,103	(13,009)
Pledges receivable	(9,135)	(64,097)
Inventory of purchased goods	66,752	(13,404)
Prepaid expenses	274,709	253,308
Supplies inventory	-	830
Increase (decrease) in operating liabilities:		
Accounts payable	29,018	963
Accrued liabilities	(6,557)	29,121
Accrued compensated absences	(67,791)	(35,316)
Deferred revenues	(4,642)	17,317
Net cash used in operating activities	(610,462)	(485,768)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments, net	(9,102)	-
Purchase of property and equipment	(262,073)	(71,465)
Payments for construction in progress	-	(3,355)
Proceeds from sale of property and equipment	1,903,979	30,346
Cash from matured certificates of deposit	-	103,274
Proceeds from sale of stock	14,596	86,696
Net cash provided by investing activities	1,647,400	145,496
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	(200,000)	200,000
Payment for debt issuance costs	(19,989)	-
Payments on long-term debt	(428,774)	(468,325)
Net cash used in financing activities	(648,763)	(268,325)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	388,175	(608,597)
Cash and cash equivalents, beginning of year	421,442	1,030,039
Cash and cash equivalents, end of year	\$ 809,617	\$ 421,442

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 bargain centers, 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 bargain centers ministry affords shoppers within the Missions' communities (Pensacola, Fort Walton, Crestview, Milton, Foley, Cantonment, and Gulf Breeze) to purchase affordable, high-quality clothing, shoes, household goods, and gently-used home furnishings at exceptional values. The Mission's recycling and donation center processes, on average, 1,650 tons of in-kind donated recyclable materials annually. Materials are donated on-site and collected from bargain centers 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 bargain centers 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 three classes of net assets:

Unrestricted net assets - not subject to donor-imposed stipulations.

Temporarily restricted net assets - subject to donor-imposed stipulations, which will be met by the Organization's activity or through the passage of time.

Permanently restricted net assets - subject to donor-imposed permanent restrictions. There were no permanently restricted net assets at December 31, 2016.

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, 2016.
7. Contribution Receivable - Charitable Remainder Trust - The Organization's beneficial interest in a charitable remainder trust was recorded as unrestricted net assets when the Organization was notified of the trust's existence. The assets for the contribution receivable from the trust consist of assets held and managed by a trustee. The contribution receivable is reported at fair value at year end. Distributions from the trust are reflected as reductions in the contribution receivable.
8. Pledges Receivable - Unconditional promises to give (pledges) are recognized in the period that notification is received. The pledges are recorded as revenue and temporarily restricted net assets. Pledges are discounted, using a market discount rate, to present value for collections expected in future years. Accretion of the discount in subsequent years is also recorded as contribution revenue.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges receivable are stated net of an allowance for uncollectable 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, 2016.

9. Contributed Merchandise - Inventories of clothing and other merchandise donated to the Mission for sale through the bargain center stores and use in the Mission's program services are recorded at estimated net realizable value. The value of inventory on hand in the bargain center 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, 2016. 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.
10. Purchased Goods Merchandise - Inventories of merchandise purchased for resale are valued at lower of cost (first in-first out) or market.
11. 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 unrestricted net assets unless their use is temporarily or permanently restricted by the donor, and dividend, interest, and other investment income is reported in the period earned as increases in unrestricted net assets unless donor-imposed restrictions apply.

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

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

12. 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, 2016.
13. 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 temporarily 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 temporarily restricted net assets to unrestricted net assets 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

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

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

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

15. 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 temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization did not receive any permanently restricted support during the year ended December 31, 2016.

16. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 bargain center 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, 2016 to be \$552,079. In-kind stock donations totaled \$16,385 for the year ended December 31, 2016.

17. 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.
18. 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.
19. 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.
20. 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 \$193,249 for the year ended December 31, 2016.
21. Comparative Financial Information - The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2015 from which the summarized information was derived.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

22. 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, 2016. In addition, the Mission and the Foundation qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations other than a private foundation under Section 509(a)(2).

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

The Organization follows the accounting standard for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest, and penalties on income taxes, and accounting in interim periods. The Organization believes that any tax positions it has taken or expects to take that are more-likely-than-not sustainable, as described in the Codification, would not be material to the financial statements taken as a whole. Accordingly, no liability has been provided for unrecognized tax benefits, nor has any interest or penalty been accrued at December 31, 2016.

The Organization's information and tax returns for the years ended December 31, 2014 through 2016 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

plans to adopt this ASU for its year ending December 31, 2018. Adoption of this ASU will significantly impact the presentation and disclosures of the financial statements.

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.

24. Events Occurring After the Reporting Date - The Waterfront Rescue Mission, Inc. has evaluated events and transactions that occurred between December 31, 2016 and July 19, 2017, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE C - CASH AND CASH EQUIVALENTS

Cash and cash equivalents were comprised of the following as of December 31, 2016:

Non-interest bearing accounts	\$	796,917
Cash on hand		<u>12,700</u>
	\$	<u>809,617</u>

NOTE D - SUPPLEMENTAL CASH FLOW INFORMATION

The Organization paid \$317,851 in interest during the year ended December 31, 2016. During 2016, the Organization received in-kind stock donations totaling \$16,385. Insurance and real property were financed during 2016 in the amounts of \$156,066 and \$400,000, respectively. During 2016, a note was refinanced in the amount of \$216,221. The Organization also disposed of two properties during the year, whereas \$254,260 of the proceeds were paid directly to the financing institution.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE E - PLEDGES RECEIVABLE

Pledges receivable consist of unconditional promises to give from individuals and private foundations. These contributions are temporarily restricted and are due according to the following schedule as of December 31, 2016:

	<u>2016</u>
Pledges receivable	\$ <u>130,000</u>
Receivable in less than one year	\$ 90,000
Receivable in one to five years	<u>40,000</u>
	130,000
Less unamortized discount	-
Less allowance for uncollectable pledges	<u>-</u>
	<u>\$ 130,000</u>

Pledges are discounted, using a market discount rate of .01%, to present value for collections expected in future years.

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, 2016 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, 2016 was \$116,388.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE G - INVESTMENTS

Cost, fair value, and unrealized gains (losses) from acquisition until December 31, 2016 for assets held as investments are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gains (Losses)</u>
Trading investments	\$ 20,025	\$ 20,025	\$ -
Cash surrender value of life insurance	<u>352,985</u>	<u>352,985</u>	<u>-</u>
	<u>\$ 373,010</u>	<u>\$ 373,010</u>	<u>\$ -</u>

Fair value of assets measured on a recurring basis at December 31, 2016, were as follows:

	<u>Fair Value</u>	<u>Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Fair Value Measurement Using Significant Other Observable Inputs (Level 2)</u>
Trading investments	\$ 20,025	\$ 20,025	\$ -
Cash surrender value of life insurance	<u>352,985</u>	<u>-</u>	<u>352,985</u>
	<u>\$ 373,010</u>	<u>\$ 20,025</u>	<u>\$ 352,985</u>

There were no Level 3 inputs at December 31, 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE H - LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment owned by the Organization at December 31, 2016 were as follows:

Land	\$ 2,968,526
Buildings and improvements	14,427,384
Leasehold improvements	24,510
Furniture, fixtures, and equipment	1,984,009
Vehicles	<u>729,305</u>
	20,133,734
Less accumulated depreciation	<u>(5,475,181)</u>
	<u>\$ 14,658,553</u>

In 1984, the Florida Mission received the property known as the New Hope Home as a donation in fee simple forever. This facility was being used as an alcoholic and drug rehabilitation center. Under the agreement, if the premises cease to be used in this manner, title to the property would revert to the grantor. During 2016, the Organization made the decision to cease operations at the location and reverted the property back to the grantor.

Depreciation expense for the year ended December 31, 2016 was \$635,542.

NOTE I - LINES OF CREDIT

During 2015, the Organization established a line of credit agreement with a bank, with a maximum limit of \$200,000 and matured September 2016. The line of credit was secured by a promissory note and beared interest at prime plus one percent. There was no balance outstanding on the line of credit at December 31, 2016.

During February 2016, the Organization established another line of credit agreement with a bank, with a maximum limit of \$200,000 and matured August 2016. The line of credit was secured by a promissory note and beared interest at prime plus one percent. There was no amount outstanding and no interest expense as of and for the year ended December 31, 2016.

Interest expense was \$7,006 for the year ended December 31, 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE J - NOTES PAYABLE

The Organization's notes payable as of December 31, 2016 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	\$ 371,426
Note to insurance company, monthly payments of \$14,541, including interest at 4.95% through March 2017, uncollateralized	17,497
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 \$1,273,889 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 \$11,572,836	1,363,897
Note to Trustmark, including interest at 4.00%, payable in full in December 2017, 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 \$11,572,836	216,221
Note to bank, monthly payments of \$560, including interest at 4.50% through May 2019, collateralized by one vehicle with a net book value of \$15,719	15,352
Note to bank, monthly payments of \$560, including interest at 4.50% through May 2019, collateralized by one vehicle with a net book value of \$15,719	15,352
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 \$20,802	22,495
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 \$21,860	22,495

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

NOTE J - NOTES PAYABLE (Continued)

The Mission: (Continued)

Note to bank, monthly payments of \$435, including interest at 3.49% through November 2020, collateralized by one vehicle with a net book value of \$18,310	18,735
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, net of unamortized issuance costs of \$19,323	379,343
Less, New Market Tax Credit unamortized debt issuance costs	(22,416)

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	(460,592)
	<u>\$ 9,234,805</u>

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

NOTE J - NOTES PAYABLE (Continued)

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

<u>Year Ending December 31,</u>	<u>Amounts</u>
2017	\$ 461,920
2018	237,022
2019	237,716
2020	1,071,467
2021	514,937
Thereafter	<u>6,711,743</u>
	<u>\$ 9,234,805</u>

Interest expense related to the notes payable for the year ended December 31, 2016 was \$341,348.

NOTE K - CONTINGENT NOTE PAYABLE

The Federal Home Loan Bank Atlanta advanced Affordable Housing Program funds to the Organization in the amount of \$1,000,000 for the construction of the Pensacola Mission. The award was recognized by a note which was formally executed September 28, 2012, for this amount, and is secured by the Herman Street building, including all attached real property and improvements with a net book value of \$4,298,966. In addition, the ground lease has also been assigned. These funds were awarded in conjunction with the loan, dated February 14, 2012, for \$1,000,000 with a financial institution.

During 2014, the Federal Home Loan Bank Atlanta advanced Affordable Housing Program funds to the Organization in the amount of \$225,243 for the construction of the Mobile Mission. The award was recognized by a note which was formally executed October 25, 2012, for this amount, and is secured by the Mobile Mission building, including all attached real property and improvements with a net book value of \$6,295,836. These funds were awarded in conjunction with the loan, dated September 15, 2014, for \$225,243 with a financial institution.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE K - CONTINGENT NOTE PAYABLE (Continued)

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

If the Organization is not in default of any terms or obligations of the note within fifteen years, the entire principal balance shall be forgiven on the fifteenth anniversary of the note. The note is noninterest bearing. The balance of the contingent notes payable for the Pensacola Mission and the Mobile Mission were \$1,000,000 and \$225,243, respectively, at December 31, 2016.

NOTE L - NEW MARKET TAX CREDIT FINANCING

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

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

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

There were two separate promissory notes signed on November 26, 2013, to borrow a total of \$7,275,000 from SCC Sub-CDE1, LLC (the CDE for the project). The promissory notes call for certain covenants with which the Organization must comply.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE L - NEW MARKET TAX CREDIT FINANCING (Continued)

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

To earn the tax credit, the QEI must remain invested in the CDE for a seven-year period ending in November 2020. The Mission and Trustmark have entered into a put/call option agreement to take place at the end of the seven-year period. Under the agreement, Trustmark can exercise a put option to sell all interest in the QEI for \$1,000 to the Mission. If the put option is not exercised, the Mission can exercise a call option to purchase the interest of the QEI at its then fair market value. Additionally, the WRM QALICB Operating Agreement gives the Mission an option to acquire the remaining 11% interest of the WRM QALICB for the fair market value after seven years.

NOTE M - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2016:

Relocation capital campaign	\$	42,996
Veterans Care program		80,000
Other purposes		<u>13,160</u>
	\$	<u>136,156</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, 2016 are as follows:

	<u>Mission</u>	<u>Foundation</u>	<u>WRM QALICB</u>	<u>Eliminating Entries</u>	<u>Total</u>
Unrestricted net assets:					
Balance, December 31, 2015	\$ 13,064,845	\$ 1,571,097	\$ (585,775)	\$ (917,999)	\$ 13,132,168
Changes in unrestricted net assets	<u>(1,604,462)</u>	<u>31</u>	<u>(224,826)</u>	<u>21,713</u>	<u>(1,807,544)</u>
Balance, December 31, 2016	<u>\$ 11,460,383</u>	<u>\$ 1,571,128</u>	<u>\$ (810,601)</u>	<u>\$ (896,286)</u>	<u>\$ 11,324,624</u>
	<u>Mission</u>	<u>Foundation</u>	<u>WRM QALICB</u>	<u>Eliminating Entries</u>	<u>Total</u>
Temporarily restricted net assets:					
Balance, December 31, 2015	\$ 32,480	\$ 42,996	\$ -	\$ -	\$ 75,476
Changes in temporarily restricted net assets	<u>60,680</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,680</u>
Balance, December 31, 2016	<u>\$ 93,160</u>	<u>\$ 42,996</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136,156</u>

NOTE O - SUBLEASE RENTAL INCOME

The Mission signed an initial one-year lease agreement in March 2010 for the North McKenzie Street property in Foley, Alabama for \$2,500 per month. The lease was renewed in February 2011 for an additional two-year period, and was extended again in February 2013. The lease expired in April 2015 and is on a month-to-month basis.

The Mission entered into a sublease agreement in November 2013 for the Mobile Mission Homeless Campus. The lease commenced January 1, 2014, and expires on December 31, 2024. The subtenant is leasing approximately 7,500 square feet. Rent is \$7,643 due monthly, with standard incremental increases during the term of the lease. In addition, the subtenant also agreed to pay the Mission for additional monthly rent for utilities used by the subtenant on the leased properties. The initial additional rental amounts to \$2,100 per month, to be reviewed on an annual basis. The sublease was pledged as collateral in connection with the note payable to Trustmark (See Note J).

In September 2015, the Mission entered into a two-year agreement for the West Fairfield Drive property in Pensacola, Florida, ending in August 2017, for \$1,200 per month.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE O - SUBLEASE RENTAL INCOME (Continued)

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

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

<u>Year Ending December 31,</u>	<u>Amounts</u>
2017	\$ 126,516
2018	116,916
2019	116,916
2020	116,916
2021	116,916
Thereafter	<u>258,190</u>
	<u>\$ 852,370</u>

The following is a summary of the leased property in service at December 31, 2016:

Land	\$ 83,741
Land improvements	12,156
Buildings and improvements	1,563,148
Equipment	<u>1,980</u>
	1,661,025
Less accumulated depreciation	<u>(164,203)</u>
	<u>\$ 1,496,822</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, 2016 were as follows:

Revenues	\$	165,082
Expenses		
Depreciation		41,308
Insurance		14,388
Repairs and maintenance		9,967
Utilities		<u>23,727</u>
		<u>89,390</u>
Net rental income	\$	<u><u>75,692</u></u>

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

NOTE P - OPERATING LEASES

In 2010, the Organization entered into a lease for a facility in Pensacola under a three-year operating lease requiring annual rental payments of \$28,548, with annual increases of 3%. Rent expense for the year ended December 31, 2016 for this facility was \$35,765. This lease was renewed during 2013 for an additional three years requiring annual rental payments of \$31,200, with annual increases of 3%.

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, 2016 for this land was \$50,200.

In 2011, the Organization entered into a lease for a facility in Cantonment under a three-year operating lease requiring annual rental payments of \$24,000, with annual increases of 3%. In addition, as a part of the lease, the Mission is required to pay additional common area maintenance charges. This lease was renewed during 2014 for an additional three years requiring annual rental payments of \$26,225. Rent expense for the year ended December 31, 2016 for this facility was \$27,579.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE P - OPERATING LEASES (Continued)

In 2012, the Organization entered into a lease for a facility in Gulf Breeze under a two-year operating lease requiring annual rental payments of \$30,000. This lease was renewed during 2014 for an additional three years requiring annual rental payments of \$42,000. Rent expense for the year ended December 31, 2016 for this facility was \$42,000.

In 2015, the Organization entered into a lease for a warehouse in Pensacola, Florida under a one-year operating agreement requiring annual rental payments of \$12,600 expired November 2016. Rent expense for the year ended December 31, 2016 was \$11,500.

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.

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, 2016 was \$12,048.

The Organization continued leasing seven vehicles during 2016. Rent expense for the year ended December 31, 2016 for these vehicles was \$113,390. The leases on the vehicles expire in March 2019 for three of the vehicles, in September 2020 for three of the vehicles, and in December 2020 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 bargain center. The lease for the facility is under a five-year operating lease requiring annual rental payments of \$195,072 with two five-year renewal periods available. Rent expense for the year ended December 31, 2016 was \$119,443.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

NOTE P - OPERATING LEASES (Continued)

At December 31, 2016, 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</u> <u>December 31,</u>	<u>Amounts</u>
2017	\$ 369,492
2018	370,692
2019	340,941
2020	316,698
2021	166,176
Thereafter	<u>2,075,260</u>
	<u>\$ 3,639,259</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 and certificates of deposit 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 \$267,702 at December 31, 2016.

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 - SUBSEQUENT BP SETTLEMENT

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

NOTE T - PENSION PLAN

All of the full time employees of the Organization who have attained 21 years of age are covered under a defined contribution pension plan. Employees are permitted to contribute to the plan on a pre-tax basis. The Organization contributes matching contributions, at the Organization's discretion. Employees are also allowed to make post-tax contributions under a Roth-403(b). The Organization contributed \$42,437 to the Plan for the year ended December 31, 2016.

NOTE U - RELATED PARTY TRANSACTIONS

During 2016, a Board member bought two properties for a total purchase price of \$263,898, in arms-length-transactions, resulting in a net loss on disposals of \$28,486.

During 2016, an officer made a loan to the Organization in the amount of \$30,000, uncollateralized. The loan was repaid in full during the year. There was no interest expense charged.

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, 2016, and our report thereon dated July 19, 2017, which expresses an unmodified opinion on those financial statements appears on pages 2 - 3. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The additional information on pages 33 - 37 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Brown Thornton Pacenta & Company, P.A.

Pensacola, Florida
July 19, 2017

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS
DECEMBER 31, 2016

<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	\$ 768,884	\$ 2,929	\$ 37,804	\$ -	\$ 809,617
Accounts receivable	25,095	-	-	-	25,095
Contribution receivable	-	-	-	-	-
Intercompany receivables	399,206	1,992,392	9,420	(2,401,018)	-
Pledges receivable, net	130,000	-	-	-	130,000
Contributed merchandise inventory	759,430	-	-	-	759,430
Purchased merchandise inventory	138,403	-	-	-	138,403
Prepaid expenses and deposits	215,586	-	330,988	-	546,574
Investments	220,275	-	-	(200,250)	20,025
Cash surrender value life insurance	352,985	-	-	-	352,985
Note receivable	5,277,000	-	-	-	5,277,000
Land, buildings, and equipment, net	9,716,400	-	5,343,553	(401,400)	14,658,553
Construction in progress	-	-	-	-	-
Total assets	\$ 18,003,264	\$ 1,995,321	\$ 5,721,765	\$ (3,002,668)	\$ 22,717,682
<u>LIABILITIES AND NET ASSETS</u>					
LIABILITIES					
Accounts payable	\$ 277,331	\$ -	\$ 7,492	\$ -	\$ 284,823
Accrued liabilities	108,486	-	1,877	-	110,363
Intercompany payables	2,016,596	381,197	3,225	(2,401,018)	-
Accrued compensated absences	348,934	-	-	-	348,934
Notes payable, net	2,420,397	-	6,519,772	294,636	9,234,805
Contingent note payable	1,225,243	-	-	-	1,225,243
Deposits payable	12,043	-	-	-	12,043
Deferred revenues	40,691	-	-	-	40,691
Total liabilities	6,449,721	381,197	6,532,366	(2,106,382)	11,256,902
NET ASSETS					
Unrestricted (deficit)	11,460,383	1,571,128	(810,601)	(896,286)	11,324,624
Temporarily restricted	93,160	42,996	-	-	136,156
Total net assets	11,553,543	1,614,124	(810,601)	(896,286)	11,460,780
Total liabilities and net assets	\$ 18,003,264	\$ 1,995,321	\$ 5,721,765	\$ (3,002,668)	\$ 22,717,682

See independent auditor's report on additional information.

CONSOLIDATING SCHEDULE OF ACTIVITIES
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS
YEAR ENDED DECEMBER 31, 2016

	<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 \$635,099)	\$ 314,932	\$ -	\$ -	\$ -	\$ 314,932
Merchandise contributed for sale (less cost of recyclables of \$6,786)	6,335,259	-	-	-	6,335,259
Donated services and in-kind goods	568,463	-	-	-	568,463
Pledges revenue	120,005	-	-	-	120,005
Cash contributions	2,194,823	31	-	-	2,194,854
Interest	134,012	-	-	-	134,012
Investment income (loss)	(355)	-	-	-	(355)
Gain on sale of assets	159,252	-	-	-	159,252
Participation fees	34,869	-	-	-	34,869
Special events (less direct expenses of \$76)	148	-	-	-	148
Other revenue	185,476	-	293,874	(293,874)	185,476
TOTAL REVENUE AND SUPPORT	10,046,884	31	293,874	(293,874)	10,046,915
EXPENSES					
Program services					
Missions	3,696,131	-	518,700	(315,587)	3,899,244
Bargain centers	4,509,799	-	-	-	4,509,799
Recycling centers	1,178,067	-	-	-	1,178,067
Total program services	9,383,997	-	518,700	(315,587)	9,587,110
Supporting services					
General and administrative	1,567,292	-	-	-	1,567,292
Fundraising	639,377	-	-	-	639,377
Total supporting services	2,206,669	-	-	-	2,206,669
TOTAL EXPENSES	11,590,666	-	518,700	(315,587)	11,793,779
CHANGE IN NET ASSETS	(1,543,782)	31	(224,826)	21,713	(1,746,864)
NET ASSETS, BEGINNING OF YEAR	13,097,325	1,614,093	(585,775)	(917,999)	13,207,644
NET ASSETS (DEFICIT), END OF YEAR	\$ 11,553,543	\$ 1,614,124	\$ (810,601)	\$ (896,286)	\$ 11,460,780

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, 2016
(With comparative totals for 2015)

	Pensacola Mission	Mobile Mission	Ft. Walton Mission	New Hope Home	Women's Center	Career Development	WRC CDP	Day Resource Center	State Street	Washington Avenue	Total Mission Expenses 2016	Total Mission Expenses 2015
Accounting and legal	\$ 26,641	\$ 1,772	\$ 410	\$ -	\$ 756	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,579	\$ 7,331
Advertising	1,669	1,246	-	-	385	-	325	295	-	-	3,920	3,206
Bank Charges	-	1,786	-	-	-	-	-	-	-	-	1,786	1,498
Banquets	-	-	-	-	-	-	-	-	-	-	-	1,207
Bulk mail	-	-	-	-	-	-	-	-	-	-	-	-
Contracted services	9,617	10,832	263	376	1,745	140	422	5,473	-	-	28,868	75,366
Convention travel	983	1,866	1,031	1,018	1,044	983	983	25	-	-	7,933	523
Credit cards	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	211,681	173,579	4,120	4,830	7,699	9,544	1,463	19,961	-	-	432,877	520,977
Donations in-kind	311,077	181,004	3,008	1,934	11,177	15,592	1,504	9,320	-	-	534,616	581,167
Donations to others	100	50	-	-	-	-	-	-	-	-	150	443
Drug free program	3,578	318	19	19	19	19	19	45	-	-	4,031	8,470
Dues and subscriptions	1,181	1,787	590	609	379	339	182	182	-	-	5,067	15,714
Education and training	1,172	684	514	514	514	514	8,474	149	-	-	12,535	44,123
Insurance	69,767	58,173	4,896	7,402	7,278	5,334	2,119	9,049	14,915	-	178,933	217,119
Interest	22,532	308,890	165	595	492	393	165	-	-	-	333,232	316,238
Janitorial	37,964	17,671	-	472	964	1,337	292	3,483	-	-	62,183	89,001
Meals	44,721	12,018	258	1,755	2,163	2,840	783	193	-	-	64,731	192,952
Medical	1,778	190	6	74	38	6	6	82	-	-	2,180	7,999
Miscellaneous	4,534	5,345	17	41	17	17	17	1,583	-	-	11,571	3,679
Personnel benefits	71,019	28,150	6,507	13,534	14,897	10,231	6,667	1,421	-	-	152,426	231,540
Personnel costs	571,200	401,330	57,217	86,928	122,320	67,903	64,132	61,360	-	-	1,432,410	2,018,432
Postage	170	501	343	-	8	18	-	-	-	-	1,040	1,822
Rent	51,201	-	-	-	-	-	-	-	-	-	51,201	50,490
Repairs and maintenance	64,966	29,957	1,492	4,643	6,676	5,760	1,952	6,905	200	-	122,551	198,304
Supplies and small equipment	10,129	1,204	3,121	690	824	282	438	7,410	-	-	24,098	47,693
Sustenance	16,970	5,280	(135)	2,495	706	2,510	974	-	-	-	28,800	42,745
Taxes and licenses	3,230	212	19	19	450	319	19	31	2,138	-	6,437	4,155
Telephone	8,037	10,050	1,319	1,653	4,407	2,958	2,011	2,682	-	-	33,117	51,623
Uncollectable pledges	-	-	-	-	-	-	-	-	-	-	-	-
Utilities	105,226	73,918	9,923	6,103	11,917	18,863	5,275	16,359	10,299	-	257,883	432,006
Vehicles	32,297	24,825	1,313	5,662	3,022	6,031	1,360	579	-	-	75,089	132,748
Total	\$ 1,683,435	\$ 1,352,638	\$ 96,416	\$ 141,366	\$ 199,897	\$ 151,933	\$ 99,582	\$ 146,425	\$ 27,552	\$ -	\$ 3,899,244	\$ 5,298,571

See independent auditor's report on additional information.

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES - BARGAIN CENTERS
WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

YEAR ENDED DECEMBER 31, 2016
(With comparative totals for 2015)

	Pensacola Bargain Center	Foley Bargain Center	Milton Bargain Center	Ft. Walton Bargain Center	Crestview Bargain Center	Cantonment Bargain Center	Gulf Breeze Bargain Center	eBargain Center	Auto Vocations	Total Bargain Center Expenses 2016	Total Bargain Center Expenses 2015
Accounting and legal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 280
Advertising	26,081	15,745	15,519	15,210	15,175	15,525	14,919	1,832	-	120,006	96,721
Bank charges	1,210	718	693	618	758	435	2,244	-	-	6,676	10,846
Banquets	-	-	-	-	-	-	-	-	-	-	2,265
Bulk mail	-	-	-	-	-	-	-	-	-	-	-
Contracted services	6,505	2,904	1,318	1,588	802	369	688	-	-	14,174	24,797
Convention travel	1,238	1,369	1,218	1,920	2,067	1,128	1,128	1,128	-	11,196	600
Credit cards	23,901	14,147	13,014	12,001	11,086	2,829	5,460	2	-	82,440	85,519
Depreciation	30,632	42,914	24,318	8,580	13,001	797	3,657	90	3,339	127,328	160,813
Donations in-kind	6,919	2,596	2,287	2,558	1,779	236	246	-	-	16,621	18,775
Donations to others	-	10	-	-	-	-	-	-	-	10	10
Drug free program	4,836	2,046	1,446	4,236	1,538	321	816	51	-	15,290	13,052
Dues and subscriptions	1,480	1,835	1,524	968	1,574	1,480	1,546	968	-	11,375	10,000
Education and training	50	50	50	50	50	50	50	50	-	400	1,426
Insurance	53,078	25,467	24,935	32,110	21,573	6,490	10,285	-	171	174,109	200,338
Interest	218	251	218	218	218	218	218	218	-	1,777	3,104
Janitorial	6,441	4,848	3,308	4,699	2,558	1,037	1,368	-	-	24,259	28,119
Meals	552	578	291	154	382	957	250	60	-	3,224	4,342
Medical	-	102	-	-	-	18	40	-	-	160	855
Miscellaneous	2,732	1,021	563	548	356	276	141	5	-	5,642	1,728
Personnel benefits	55,367	26,063	20,564	18,377	32,108	11,011	9,327	8,915	-	181,732	208,446
Personnel costs	796,128	415,377	408,689	503,751	356,202	140,838	190,175	71,867	-	2,883,027	3,041,850
Postage	135	68	69	93	60	69	65	60	-	619	241
Rent	-	-	119,956	-	1,459	37,990	44,314	-	-	203,719	85,853
Repairs and maintenance	63,467	33,402	20,413	20,138	20,526	5,059	9,062	748	1,535	174,350	162,383
Supplies and small equipment	26,372	14,984	12,461	13,672	11,316	5,221	6,567	1,059	296	91,948	126,673
Sustenance	-	-	-	-	-	-	-	-	-	-	-
Taxes and licenses	3,241	520	772	772	-	-	6,802	-	-	11,335	8,203
Telephone	9,528	12,742	5,767	6,203	5,230	1,309	3,928	410	785	45,902	53,227
Uncollectable pledges	-	-	-	-	-	-	-	-	-	-	-
Utilities	86,281	52,810	31,141	57,833	37,137	12,478	19,618	-	-	297,298	333,887
Vehicles	653	590	921	533	990	497	501	497	-	5,182	253,948
Total	\$ 1,207,045	\$ 673,157	\$ 590,727	\$ 826,786	\$ 537,945	\$ 246,638	\$ 333,415	\$ 87,960	\$ 6,126	\$ 4,509,799	\$ 4,938,301

See independent auditor's report on additional information.

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

WATERFRONT RESCUE MISSION, INC. AND AFFILIATED ORGANIZATIONS

**YEAR ENDED DECEMBER 31, 2016
(With comparative totals for 2015)**

	Total Recycling Center Expenses 2016	Total Recycling Center Expenses 2015
Accounting and legal	\$ 2,250	\$ 26,686
Advertising	50	-
Bank charges	-	-
Banquets	-	161
Bulk mail	-	-
Contracted services	32,655	4,170
Convention travel	365	415
Credit cards	-	-
Depreciation	17,656	48,487
Donations in-kind	841	-
Donations to others	-	-
Drug free program	3,930	630
Dues and subscriptions	1,876	738
Education and training	149	50
Insurance	53,745	16,562
Interest	7,287	1,210
Janitorial	1,322	615
Meals	106	142
Medical	-	149
Miscellaneous	1,920	1,889
Personnel benefits	12,644	4,591
Personnel costs	634,837	115,901
Postage	-	-
Rent	41,460	40,541
Repairs and maintenance	19,074	11,241
Supplies and small equipment	19,012	11,681
Sustenance	-	-
Taxes and licenses	9,379	45
Telephone	8,431	3,812
Uncollectable pledges	-	-
Utilities	25,414	16,933
Vehicles	283,664	28,634
Total	\$ 1,178,067	\$ 335,283

See independent auditor's report on additional information.