

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2015

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION

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Innovative financial and tax strategies for entrepreneurs and investors.

INDEPENDENT AUDITORS' REPORT

April 13, 2016

The Board of Directors
Rescue Missions Ministries, Inc.
d/b/a Durham Rescue Mission
Durham, North Carolina

We have audited the accompanying consolidated statement of financial position of Rescue Missions Ministries, Inc. d/b/a Durham Rescue Mission (the "Mission"), a nonprofit organization, as of December 31, 2015, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Mission as of December 31, 2015, and the consolidated statement of activities and changes in net assets and consolidated statement of cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on page 17 is presented for purposes of additional analysis and is not a required part of the 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 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 financial statements as a whole.

Bassett & Myers, P.A.

Raleigh, NC

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2015

ASSETS

CURRENT ASSETS

Cash and equivalents	\$	1,285,742
Promises to give, net		97,736
Other receivables		96,761
Investments, at fair value		2,256,989
Prepaid expenses		87,284
Inventory, net		495,831
Total current assets		4,320,343

LONG TERM ASSETS

Restricted cash		747,961
Property and equipment, net		17,866,863
Investments, at fair value		648,092
Endowment investments		4,710,521
Promises to give, net		754
Other assets		25,000
Total long term assets		23,999,191
	\$	28,319,534

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	271,832
Accrued payroll liabilities		170,953
Sales tax payable		12,754
Short-term notes payable		381,142
Deferred revenue		10,605
Total current liabilities		847,286

NET ASSETS

Unrestricted net assets		
Board designated for special purpose		2,499,000
Non-designated		21,939,868
Total unrestricted net assets		24,438,868
Temporarily restricted net assets		2,783,380
Permanently restricted net assets		250,000
Total net assets		27,472,248

See accompanying notes and independent auditors' report

\$ 28,319,534

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

UNRESTRICTED NET ASSETS

Revenues and gains	
Contributions	\$ 6,753,826
Sales and services	3,966,570
Program services	242,377
Return on investments	(307,317)
Dividends and investment interest	268,594
Rent	239,661
Other	<u>1,703</u>
Total unrestricted revenues and gains	11,165,414
Net assets released from restrictions	
Satisfaction of purpose restrictions	<u>1,380,535</u>
Total unrestricted revenues, gains, and other support	<u>12,545,949</u>
Expenses	
Program services	7,575,108
Supporting activities	
Management and general	1,022,618
Fundraising	<u>525,149</u>
Total expenses	<u>9,122,875</u>
Other gains and (losses)	
Other income (expense)	-
(Loss) on disposal of fixed assets	<u>(117,497)</u>
Increase in unrestricted net assets	<u>3,305,577</u>

See accompanying notes and independent auditors' report

TEMPORARILY RESTRICTED NET ASSETS

Contributions	184,889
Return on investments	(23,754)
Dividends and interest	24,531
Net assets released from restrictions	
Satisfaction of purpose restrictions	<u>(1,380,535)</u>
 (Decrease) in temporarily restricted net assets	 <u>(1,194,869)</u>
 INCREASE IN NET ASSETS	 <u>2,110,708</u>
 NET ASSETS, beginning of year	 <u>25,361,540</u>
 NET ASSETS, end of year	 <u>\$ 27,472,248</u>

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 2,110,708
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	569,362
Non-cash donations of fixed assets and inventory	(25,460)
Unrealized loss on investments	383,564
Loss on disposal of fixed assets	117,497
(Increase) decrease in operating assets:	
Accounts receivable	(68,631)
Promises to give	(79,358)
Prepaid expenses	(15,710)
Earnest deposits	-
Inventory	(16,418)
Long-term promises to give	29,540
Increase (decrease) in operating liabilities	
Accounts payable	6,388
Accrued liabilities	7,628
Deferred revenue	-
Net cash provided by operating activities	<u>3,019,110</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(3,731,832)
Cash paid for purchase of investments	(3,164,712)
Cash received from sale of investments	<u>1,227,139</u>
Net cash (used in) investing activities	<u>(5,669,405)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from issuance of short-term debt	<u>381,142</u>
Net increase (decrease) in cash and cash equivalents	(2,269,153)
Cash and cash equivalents, beginning of year	<u>3,554,895</u>
Cash and cash equivalents, end of year	<u>\$ 1,285,742</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Non cash contributions	<u>\$ 2,340,546</u>
Cash paid for interest	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>

See accompanying notes and independent auditors' report

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Rescue Mission Ministries, Inc. doing business as Durham Rescue Mission (the “Mission”) is a nonprofit organization that was formed in 1973. The Mission’s purpose is to offer food to the hungry, clothes and shelter to the needy, vocational training and medical, dental, and vision care through a partnership with Samaritan Health Center, Inc., to its residents, and Christ to the hurting through programs for men, women and children in Durham, North Carolina. The Mission is governed by a Board of Directors which meets regularly to conduct the business of the Mission. The Mission’s revenue consists primarily of individual, corporate, and church contributions.

A Summary of the Mission’s Significant Accounting Policies follows:

Consolidated Financial Statements

The consolidated financial statements include the accounts of the Mission and Durham Rescue Mission Endowment Fund (the “Fund”), a fund formed by the Mission on July 12, 2010, and set up to hold funds to be used if contributions decrease. Consolidation is required since the Mission exercises control over the Fund.

Financial Statement Presentation

The Mission reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For the purpose of reporting the statement of cash flows, the Mission considers cash in banks and investments with an original maturity of three months or less when purchased to be cash equivalents. Amounts received with donor-imposed restrictions which limit their use to long-term purposes are not considered cash and cash equivalents for purposes of the statement of cash flows.

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the changes in net assets. Unless they are specifically restricted by the donor, investment earnings and losses are reported as increases or decreases in unrestricted net assets.

Income Taxes

The Mission is exempt from Federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code, and has been classified as a church by the Internal Revenue Service. In addition, the Mission qualifies for the charitable contribution deduction under Section 107(b)(1)(a).

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. The discount on amounts to be collected in future years at December 31, 2015 was \$9,246. Conditional promises to give are not included as revenue until the conditions are substantially met.

Allowance for Uncollectable Accounts

Pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable. The allowance for uncollectible pledges receivable as of December 31, 2015 was \$25,000.

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donor assets must be maintained, the Mission reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Mission reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Property and equipment are depreciated using the straight-line and accelerated methods over the following useful lives:

	<u>Years</u>
Furniture and equipment	5-20
Vehicles	3-5
Buildings and improvements	10-40

Expenditures for repairs and maintenance are charged to expense as incurred. The cost of major renewals and betterments are capitalized and depreciated over their estimated useful lives. Upon disposition of property and equipment, the related asset and accumulated depreciation accounts are removed and any gain or loss is reflected in the statement of activities for the period.

Inventory

Inventory consists of donated and purchased food, clothing, furniture, and other supplies that are either used or sold in its thrift shops, as well as vehicles that are either used in the Mission's programs or sold in its yard sales. Donated inventory is recorded as donated materials revenue and as inventory at estimated fair market value at the time of receipt.

Contributions

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is 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 and reported in the statement of activities as net assets released from restrictions.

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Contributions made (benevolent gifts) are recognized as expenses in the period made. Although a benevolent gift expense has not been recognized in relation to the yard sales, it is the Mission's contention that most items are sold below fair market value and, as such, represent a benefit to needy members of the community.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounting for uncertain tax positions

The Mission reports uncertain tax positions under ASC 740-10-50-15(a). Management believes it has no substantial uncertain tax positions for the year ending December 31, 2015. Calendar years 2012, 2013, 2014, and 2015 remain open and subject to review by regulatory agencies at December 31, 2015.

Note 2. Inventory

Inventory consists entirely of goods available for sale at the Mission's thrift shops or at yard sales. The cost of donated inventory is estimated based on the fair market value at the time of receipt. For vehicles held for yard sales, that cost is adjusted down to net realizable value for slow-moving items. Write downs of inventory for the year ended December 31, 2015 were \$0. A loss is recorded for any vehicles sold for less than their cost.

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Inventory (Continued)

The cost, allowance for slow moving inventory, and net realizable value of inventory items at December 31, 2015 consist of the following:

	<u>Cost or Donated Value</u>	<u>Allowance for Slow-Moving Inventory</u>	<u>Net Book Value</u>
Clothing, furniture, and supplies for thrift store	\$ 486,943	\$ -	\$ 486,943
Vehicles for yard sale	<u>8,888</u>	<u>-</u>	<u>8,888</u>
	<u>\$ 495,831</u>	<u>\$ -</u>	<u>\$ 495,831</u>

Note 3. Investments

All investments at December 31, 2015 are equity securities or mutual funds with readily determinable market values. The following schedule summarizes the return on investments for the year ended December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Realized and unrealized (losses)	\$ (307,317)	\$ (23,754)
Dividends and interest	<u>268,594</u>	<u>24,531</u>
	<u>\$ (38,723)</u>	<u>\$ 777</u>

Investor broker fees incurred on unrestricted investments have been included with professional fees in the statement of function expenses, for the year ending December 31, 2015. Realized and unrealized gains on temporarily restricted investments are reported, net of investment broker fees, for the year ending December 31, 2015.

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Promises to Give

Included in promises to give as of December 31, 2015 were the following:

Promises to give	\$	132,736
Pledge discounts for long-term promises		(9,246)
Allowance for uncollectibles		<u>(25,000)</u>
 Promises to give, net	 \$	 <u>98,490</u>
 Amounts due in:		
Less than one year (reported as current assets)	\$	97,736
One to five years (reported as long-term assets)		<u>754</u>
	 \$	 <u>98,490</u>

Note 5. Property and Equipment

The cost, accumulated depreciation, and net book value of property and equipment consist of the following at December 31, 2015:

Buildings and improvements	\$	15,228,235
Land		3,038,940
Furniture and equipment		1,498,246
Vehicles		261,488
Construction in process		1,194,503
Accumulated depreciation		<u>(3,354,549)</u>
	 \$	 <u>17,866,863</u>

Depreciation expense was \$569,362 for the year ended December 31, 2015.

Note 6. Short-term Note Payable

The Mission has a construction loan with BB&T Bank which carries an interest rate at the bank's prime rate less 0.5%, unless that rate is below the bank's cost of funds (3.25% at December 31, 2015), and is secured by the assets of the Mission. The construction loan is interest-only during the construction phase, and automatically converts to a term loan after the construction period. Management intends to pay off the loan before it converts into a term loan, and therefore is considered a short-term liability.

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Net Assets

Board Designated net assets consists of the following at December 31, 2015:

Investment in property and equipment	\$ 700,000
Self-insurance fund	499,000
Operating fund	1,000,000
Facility renovation and repairs	<u>300,000</u>
	<u>\$ 2,499,000</u>

Temporarily restricted net assets, restricted for a specific purpose, consist of the following at December 31, 2015:

Investment in property and equipment	\$ 2,313,001
GSK Victory Scholarship Program	339,810
Miscellaneous projects	<u>130,569</u>
	<u>\$ 2,783,380</u>

Permanently restricted net assets of \$250,000 consist entirely of an endowment set up by GlaxoSmithKline (GSK) for Victory Scholarships. The contributed capital will be held in perpetuity, with earnings being available to fund educational opportunities of Victory program graduates under the conditions that follow. Annual distributions will be limited to the greater of (1) five percent of the average market value of the endowment, so long as the average market value is greater than 105.3% of the contributed capital or (2) the accumulated net income earned from the contributed capital.

Note 8. Employee Retirement Plan

The Mission has a safe-harbor 401(k) plan. Employees are eligible to participate upon reaching 21 years of age and 1,000 hours of service. Contributions are determined solely at the discretion of the Board of Directors, subject to a limit of 8% of each participant's salary. Contributions under the plan totaled \$80,286 for the year ended December 31, 2015.

Note 9. Lease Transactions as Lessor

The Mission leases housing and other commercial building spaces on a month-to-month basis under operating leases. Equipment under operating leases was \$6,785,305 at December 31, 2015, and is included in property and equipment, net, in the accompanying statement of financial position. Accumulated depreciation on

RESCUE MISSIONS MINISTRIES, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Lease Transactions as Lessor (Continued)

buildings under operating leases was \$897,877 at December 31, 2015.

Note 10. In-Kind Contributions and Donated Services

A substantial portion of contributions to the Mission are in the form of goods and services rather than cash. The Mission records a contribution and a related expense or asset for these non-cash donations for which a market value is readily determinable.

Primary classes of such donations and their respective values as of December 31, 2015 are as follows:

Food, clothing and other items	\$ 2,314,086
Donated land and buildings	-
Donated vehicles	<u>25,460</u>
	<u>\$ 2,339,546</u>

In addition, many individuals volunteer their time and perform a variety of tasks but these services do not meet the criteria for recognition as contributed services or the amounts involved are not considered material. Accordingly, they have not been recognized in the financial statements.

Note 11. Fair Value Measurements

The Mission reports the value of investments according to standards on fair value measurements. These standards require management to report the fair value of applicable assets according to three hierarchical levels; Level I – Quoted Prices in Active Markets for Identical Assets, Level II – Significant Other Observable Inputs, and Level III – Significant Unobservable Inputs, as well as total gains and losses resulting from certain changes in fair value.

Fair values are as follows at December 31, 2015:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Marketable Securities	<u>\$7,615,602</u>	<u>\$ -</u>	<u>\$ -</u>

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Lease Commitments as Lessee

The Organization leases office equipment under the terms of a non-cancelable operating lease. The term of the lease is for five years beginning on March 18, 2014, and ending on May 18, 2019, with an option to renew for at the end of the five-year period. Total rent expense for the year ended December 31, 2015 was \$2,540.

Future minimum lease payments under operating leases as of December 31, 2015 are as follows:

2016	\$ 3,672
2017	3,672
2018	3,672
2019	<u>1,530</u>
	<u>\$ 12,546</u>

Note 13. Concentration of Risk

The Mission had time and demand deposits in several financial institutions which were in excess of the Federal Deposit Insurance Corporation (FDIC) limitations at various times throughout the year. Deposits in excess of FDIC limits were \$423,727 at December 31, 2015. Accounts are guaranteed by the FDIC up to \$250,000. The Mission has not experienced any losses in such accounts.

Note 14. Management's Review for Subsequent Events

Management has reviewed their financial records for subsequent events that potentially could have a material effect on the financial statements as of and for the period ending December 31, 2015. Management has conducted their review through the audit report date, which represents the date the financial statements were available to be issued. Based on management's search through their financial records, we are unaware of any subsequent events that have any material effect on the financial statements as of and for the year ending December 31, 2015.

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
SUPPLEMENTAL INFORMATION
Consolidated Schedule of Functional Expenses
For the Year Ended December 31, 2015

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries, benefits, and contracted labor	\$ 2,264,771	\$ 368,911	\$ 199,052	\$ 2,832,734
Food	2,308,356	-	-	2,308,356
Depreciation and amortization	569,362	-	-	569,362
Postage and printing	197,623	118,573	79,049	395,245
Maintenance and repairs	333,284	-	-	333,284
Community events	61,795	-	-	61,795
Utilities	470,183	16,228	-	486,411
Development	-	22,457	245,418	267,875
General and Administrative	1,874	251,998	-	253,872
Insurance	208,316	46,456	1,630	256,402
Benevolent gifts	261,129	-	-	261,129
Program supplies	299,634	-	-	299,634
Transportation	172,857	-	-	172,857
Professional fees	177,745	126,208	-	303,953
Cost of goods sold	59,575	-	-	59,575
Clothing	123,366	-	-	123,366
Office expense	9,679	35,819	-	45,498
Telephone	21,980	34,497	-	56,477
Staff training	15,747	1,471	-	17,218
Resident training	17,832	-	-	17,832
	<u>\$ 7,575,108</u>	<u>\$ 1,022,618</u>	<u>\$ 525,149</u>	<u>\$ 9,122,875</u>

See accompanying notes and independent auditors' report