

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

FINANCIAL STATEMENTS

Year Ended December 31, 2016

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

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B. DANE BYERS, CPA

INDEPENDENT AUDITOR'S REPORT

April 10, 2017

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

I have audited the accompanying statement of financial position of Rescue Missions Ministries, Inc. d/b/a Durham Rescue Mission (the "Mission"), a nonprofit organization, as of December 31, 2016, and the related 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mission as of December 31, 2016, and the statement of activities and changes in net assets and statement of cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

My 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

B. Dane Byers, CPA

Durham, North Carolina

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
STATEMENTS OF FINANCIAL POSITION
As of December 31, 2016

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,357,469
Promises to give, net	161,755
Other receivables	39,970
Investments, at fair value	2,772,240
Prepaid expenses	31,025
Inventory, net	<u>652,910</u>
Total current assets	<u>5,015,369</u>
 LONG TERM ASSETS	
Restricted cash	165,895
Property & equipment, net	10,119,404
Investments, at fair value	326,970
Promises to give, net	342,909
Other assets	<u>25,000</u>
Total long term assets	<u>10,980,178</u>
Total assets	<u><u>\$ 15,995,547</u></u>
 LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 402,056
Deferred revenue	<u>10,605</u>
Total liabilities	<u>412,661</u>
 NET ASSETS	
Unrestricted net assets	
Board designated for special purpose	2,499,999
Non-designated	<u>10,720,334</u>
Total unrestricted net assets	13,220,333
Temporarily restricted net assets	2,112,553
Permanently restricted net assets	<u>250,000</u>
Total net assets	<u>15,582,886</u>
	<u><u>\$ 15,995,547</u></u>

See accompanying notes and independent auditor's report

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
STATEMENT OF ACTIVITIES
For the Twelve Months Ended December 31, 2016

UNRESTRICTED NET ASSETS

Revenues and gains	
Contributions	\$ 6,166,181
Sales and services	3,804,322
Program services	257,278
Return on investments	115,931
Dividends and investment interest	83,781
Rent	231,981
Other	<u>501,387</u>
Total unrestricted revenues and gains (losses)	11,160,861
Net assets released from restrictions	
Satisfaction of purpose restrictions	<u>2,314,263</u>
	<u>13,475,124</u>
Expenses	
Program expenses	
Operating program expenses	9,027,251
Contribution to Rescue Legacy Fund, Inc.	<u>9,833,981</u>
Total program expenses	<u>18,861,232</u>
Management & general	1,337,698
Fundraising	<u>574,279</u>
Total expenses	<u>20,773,209</u>
Change in unrestricted net assets	<u>(7,298,085)</u>

See accompanying notes and independent auditor's report

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
STATEMENT OF ACTIVITIES
For the Twelve Months Ended December 31, 2016

TEMPORARILY RESTRICTED NET ASSETS

Contributions	\$ 1,643,436
Net assets released from restrictions	
Satisfaction of purpose restrictions	<u>(2,314,263)</u>
(Decrease) in temporarily restricted net assets	<u>(670,827)</u>
(DECREASE) IN NET ASSETS	<u>(7,968,912)</u>
NET ASSETS, beginning of year	<u>23,551,798</u>
NET ASSETS, end of year	<u><u>\$ 15,582,886</u></u>

See accompanying notes and independent auditor's report

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
STATEMENT OF CASH FLOWS
For the Twelve Months Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (7,968,912)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	559,888
Accumulated depreciation on donated assets	8,389,384
Net realized and unrealized losses on investments	59,075
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	54,129
Promises to give	(64,019)
Prepaid expenses	31,259
Inventory	(157,079)
Long-term promises to give	(342,155)
Restricted cash	(61,098)
Intercompany receivable	1,435,897
Increase (decrease) in:	
Accounts payable and accrued expenses	<u>(53,483)</u>
Net cash provided by operating activities	<u>1,882,886</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of fixed assets	(1,201,513)
Proceeds from sales and maturities of investments	2,103,309
Purchases of investments	<u>(2,331,813)</u>
Net cash (used in) investing activities	<u>(1,430,017)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Issuance of debt	500,000
Principal payments on debt	<u>(881,142)</u>
Net cash (used in) financing activities	<u>(381,142)</u>
Net increase in cash and cash equivalents	71,727
Cash and cash equivalents, beginning of year	<u>1,285,742</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,357,469</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash payments for:	
Interest	<u>\$ 1,518</u>
Taxes	<u>\$ -</u>

See accompanying notes and independent auditor's report

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

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

Nature of Activities

Rescue Missions 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:

Basis of Presented Financial Statements

The Mission’s financial statements previously included the accounts of the Durham Rescue Mission Endowment Fund, required to be consolidated with the Mission as the Mission exercised control over the Endowment Fund. Effective January 1, 2016 the Mission no longer exerts control over the Fund, and therefore the accounts of the Fund are no longer consolidated with the Mission.

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.

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

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, 2016 was \$33,578. 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, 2016 was \$25,000.

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
NOTES TO 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 restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the same reporting period as when recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. Upon expiration, 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 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, 2016. Calendar years after 2012 remain open and subject to review by regulatory agencies at December 31, 2016.

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, 2016 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 FINANCIAL STATEMENTS

Note 2. Inventory (Continued)

The cost, allowance for slow moving inventory, and net realizable value of inventory items at December 31, 2016 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	\$ 648,920	\$ -	\$ 648,920
Vehicles	<u>3,990</u>	<u>-</u>	<u>3,990</u>
	<u>\$ 652,910</u>	<u>\$ -</u>	<u>\$ 652,910</u>

Note 3. Investments

All investments at December 31, 2016 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, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Realized and unrealized (losses)	\$ 115,931	\$ -
Dividends and interest	<u>83,781</u>	<u>-</u>
	<u>\$ 199,712</u>	<u>\$ -</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, 2016.

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

Note 4. Promises to Give

Included in promises to give as of December 31, 2016 were the following:

Promises to give	\$	563,242
Pledge discounts for long-term promises		(33,578)
Allowance for uncollectibles		<u>(25,000)</u>
 Promises to give, net	 \$	 <u>504,664</u>
 Amounts due in:		
Less than one year (reported as current assets)	\$	161,755
One to five years (reported as long-term assets)		<u>342,909</u>
	 \$	 <u>504,664</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, 2016:

Buildings and improvements	\$	8,034,811
Land		1,223,709
Furniture and equipment		827,976
Vehicles		261,488
Construction in process		2,405,016
Accumulated depreciation		<u>(2,633,596)</u>
	 \$	 <u>10,119,404</u>

Depreciation expense was \$559,888 for the year ended December 31, 2016.

Note 6. Short-term Note Payable

The Mission had 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, 2016), and is secured by the assets of the Mission. Management fully repaid the loan during the year ended December 31, 2016.

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

Note 7. Net Assets

Board Designated net assets consists of the following at December 31, 2016:

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, 2016:

Scholarship and Capital Investments	\$ 1,804,663
Miscellaneous projects	<u>307,890</u>
	<u>\$ 2,112,553</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 \$88,282 for the year ended December 31, 2016.

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, 2016, and is included in property and equipment, net, in the accompanying statement of financial position. Accumulated depreciation on

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

Note 9. Lease Transactions as Lessor (Continued)

buildings under operating leases was \$897,877 at December 31, 2016.

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, 2016 are as follows:

Food, clothing and other items	\$ 2,941,058
Donated land and buildings	-
Donated vehicles	<u>31,405</u>
	<u>\$ 2,972,463</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, 2016:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Marketable Securities	<u>\$3,099,210</u>	<u>\$ -</u>	<u>\$ -</u>

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
NOTES TO 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, 2016 was \$3,672.

Future minimum lease payments under operating leases as of December 31, 2016 are as follows:

2017	\$ 3,672
2018	3,672
2019	<u>1,530</u>
	<u>\$ 8,874</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 \$596,215 at December 31, 2016. 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, 2016. 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, 2016.

RESCUE MISSIONS MINISTRIES, INC.
D/B/A DURHAM RESCUE MISSION
SUPPLEMENTAL INFORMATION
Schedule of Functional Expenses
For the Year Ended December 31, 2016

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries, benefits and contract labor	\$ 2,734,335	\$ 643,085	\$ 200,117	\$ 3,577,537
Food	2,925,679	-	-	2,925,679
Depreciation and amortization	559,888	-	-	559,888
Postage and printing	180,469	108,360	72,105	360,934
Maintenance and repairs	261,630	8,700	-	270,330
Community events	75,380	-	-	75,380
Utilities	463,921	32,841	-	496,762
Development	-	27,020	301,272	328,292
General and administrative	-	286,980	-	286,980
Insurance	256,221	51,065	785	308,071
Benevolent gifts to others	717,306	-	-	717,306
Contributions to Rescue Legacy Fund	9,833,981	-	-	9,833,981
Program supplies	302,097	-	-	302,097
Transportation	171,634	-	-	171,634
Professional fees	143,523	112,553	-	256,076
Cost of goods sold	18,080	-	-	18,080
Clothing	145,538	-	-	145,538
Office expense	4,540	28,947	-	33,487
Telephone	25,081	35,487	-	60,568
Staff training	29,923	2,660	-	32,583
Resident training	12,006	-	-	12,006
	<u>\$ 18,861,232</u>	<u>\$ 1,337,698</u>	<u>\$ 574,279</u>	<u>\$ 20,773,209</u>

See accompanying notes and independent auditor's report