



San Diego Rescue Mission
Consolidated Financial Statements

September 30, 2011 and 2010



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
San Diego Rescue Mission

We have audited the accompanying consolidated statements of financial position of the San Diego Rescue Mission, a nonprofit organization, (the "Organization") as of September 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 includes consideration of internal control over financial reporting as a basis for designating audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the San Diego Rescue Mission as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedules of functional expenses on page 18 and 19 are presented for purposes of additional analysis and are not a required part of the 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

SWENSON ADVISORS, LLP
San Diego, California
December 19, 2011

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San Diego Rescue Mission
Consolidated Statements of Financial Position
September 30, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 365,649	\$ 189,319
Restricted cash	16,377	224,783
Investments in marketable securities	41,326	14,665
Accounts receivable	109,071	154,099
Grants receivable	85,959	-
Pledges receivable	24,500	-
Inventories	281	750
Prepaid expenses	186,246	74,718
	829,409	658,334
Property and equipment	19,106,769	19,549,588
Other assets		
Debt service reserve	694,692	694,608
Loan cost, net	105,490	115,617
	800,182	810,225
Total assets	\$ 20,736,360	\$ 21,018,147
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 210,673	\$ 369,810
Compensated absences	173,563	158,366
Current portion of interest payable	33,147	37,874
Security deposits	40,723	45,523
Line of credit	-	250,000
Current portion of notes payable	324,679	307,109
	782,785	1,168,682
Long-term liabilities		
Notes payable	11,410,465	11,734,712
Interest payable	484,968	411,616
	11,895,433	12,146,328
Total liabilities	12,678,218	13,315,010
Commitments (Notes 8 and 9)	-	-
Net assets		
Unrestricted	7,955,806	7,478,353
Temporarily restricted	88,042	212,154
Permanently restricted	14,294	12,630
	8,058,142	7,703,137
Total net assets	8,058,142	7,703,137
Total liabilities and net assets	\$ 20,736,360	\$ 21,018,147

See accompanying notes to the consolidated financial statements

**San Diego Rescue Mission
Consolidated Statements of Activities
For the Years Ended September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Changes in net assets - unrestricted		
Revenues and support		
Donated materials	\$ 5,029,974	\$ 5,381,472
Contributions	4,828,377	5,149,927
Thrift store ministry	2,780,626	2,410,486
Grants and contracts	507,341	315,660
Rental income	413,097	477,678
Recuperative care unit income	306,310	251,680
Special event	183,136	162,477
Vehicle donation sales	71,160	60,895
Miscellaneous income	18,812	9,700
Total revenues	<u>14,138,833</u>	<u>14,219,975</u>
Board designated transfer to endowment	-	(5,000)
Net assets released from restrictions	210,250	249,504
Total unrestricted revenues and support	<u>14,349,083</u>	<u>14,464,479</u>
Expenses		
Program services		
Men, women, and children's services	6,238,169	6,372,052
Partners for Hunger Relief	3,178,327	3,288,200
Thrift store ministry	1,632,498	1,675,821
Recuperative care unit	658,365	630,294
Sleepless America	2,355	7,473
Total program services	<u>11,709,714</u>	<u>11,973,840</u>
Support services		
Fundraising and development	1,264,812	1,635,192
Management and general	743,874	715,137
Total supporting services	<u>2,008,686</u>	<u>2,350,329</u>
Total program and supporting expenses	<u>13,718,400</u>	<u>14,324,169</u>
Special event expenses	153,230	226,539
Total expenses	<u>13,871,630</u>	<u>14,550,708</u>
Increase (decrease) in net assets - unrestricted	<u>477,453</u>	<u>(86,229)</u>
Changes in net assets - temporarily restricted		
Grants	85,959	231,000
Investment income	179	173
Net assets released from restrictions	<u>(210,250)</u>	<u>(249,504)</u>
Decrease in net assets - temporarily restricted	<u>(124,112)</u>	<u>(18,331)</u>
Changes in net assets - permanently restricted		
Board designated transfer	-	5,000
Contributions	1,664	-
Increase in net assets - permanently restricted	<u>1,664</u>	<u>5,000</u>
Increase (decrease) in net assets	<u>355,005</u>	<u>(99,560)</u>
Net assets at beginning of period	<u>7,703,137</u>	<u>7,802,697</u>
Net assets at end of period	<u>\$ 8,058,142</u>	<u>\$ 7,703,137</u>

See accompanying notes to the consolidated financial statements

**San Diego Rescue Mission
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2011 and 2010**

	2011	2010
Cash flows from operating activities		
Change in net assets	\$ 355,005	\$ (99,560)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	512,066	568,227
Decrease (increase) in assets:		
Restricted cash	208,406	13,332
Accounts receivable	45,028	(111,667)
Grants receivable	(85,959)	-
Pledges receivable	(24,500)	-
Inventories	469	8,933
Prepaid expenses	(111,528)	(37,586)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(159,137)	161,772
Compensated absences	15,197	20,146
Interest payable	68,625	88,617
Security deposit and prepaid rent	(4,800)	(13,493)
Net cash provided by operating activities	818,872	598,721
Cash flows from investing activities:		
Investments in marketable securities	(26,661)	(2,049)
Debt service reserve (deposits) withdrawals, net	(84)	57,514
Purchase of property and equipment	(59,120)	(899,586)
Net cash used in investing activities	(85,865)	(844,121)
Cash flows from financing activities:		
Line of credit paydown, net	(250,000)	(150,000)
Issuance of notes payable	-	700,000
Principal payments on notes payable	(306,677)	(285,960)
Net cash provided by (used in) financing activities	(556,677)	264,040
Net increase in cash	176,330	18,640
Cash and cash equivalents - beginning of year	189,319	170,679
Cash and cash equivalents - end of year	\$ 365,649	\$ 189,319
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 450,467	\$ 463,021

See accompanying notes to the consolidated financial statements

**San Diego Rescue Mission
Consolidated Notes to Financial Statements
September 30, 2011 and 2010**

NOTE 1 – SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The accompanying consolidated financial statements of the San Diego Rescue Mission (the "Organization") include the accounts of the following entities:

San Diego Rescue Mission, Inc.

San Diego Rescue Mission, Inc. ("SDRM") is a Christian nonprofit organization dedicated to caring for the homeless and destitute men, women and children of San Diego since 1955, by providing shelter, food, clothing, medical care, education, counseling, rehabilitation and spiritual guidance. SDRM operates a donation processing center and three thrift store ministries dedicated to the rehabilitation of men and women in the work place. They are trained at pricing, sorting, receiving and distribution of donated materials.

Sleepless America

Sleepless America, a nonprofit organization formed in 2009 is a national outreach initiative to build awareness, raise funds, and activate public involvement with homeless solutions across the country operating in San Diego, California. It plans to use education, cause-related marketing, multiple media and promotional events to facilitate its goals. Sleepless America plans to grant host agencies in local communities rights to use its concept and intellectual property through annual licensing agreements.

The following is a description of the Organization's programs.

Men, Women and Children's Services

The three programs within the Men, Women and Children services are described as follows:

Men's Center

The residential program is designed to incorporate biblical principles into lives of residents, empowering them to live victoriously through Christ. Practical life skills and Bible classes are taught to transform men to both live independently in our society and to depend fully on Jesus Christ. This is accomplished through a one year discipleship program that helps individuals with their needs through scripture-based lessons, support group/classes, pastoral guidance, a structured work ethic, and education program. The program culminates with a formal graduation at the end of the year. A six-month transition period is then available to assist graduates in obtaining work and housing and to help them successfully move back into the everyday world.

Nueva Vida Haven

Nueva Vida Haven was opened in response to the increasing need for emergency shelter services for homeless families. Each night, up to 60 women and children turn to Nueva Vida Haven for a warm, safe place to sleep, a place to shower and get clean clothes, and a nutritious breakfast.

Women and Children's Center

The Women and Children's Center is a long-term treatment community program designed to incorporate biblical principles into the lives of residents, empowering them to live sober and victorious lives through Jesus Christ. This is accomplished in part through support groups, classes, pastoral guidance, work therapy program, and individual therapy. Practical skills and Bible study classes are also offered to help transform residents and enable them to overcome addictions and unhealthy relationships. Specialized programs are also provided for children living in the Women and Children's Center. Infants and toddlers find a warm, stimulating environment in the Child Development Center. Older children participate in a variety of programs, including school support, after-school tutoring and recreation, and individual counseling from specially trained therapists

**San Diego Rescue Mission
Consolidated Notes to Financial Statements
September 30, 2011 and 2010**

**NOTE 1 – SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Partners for Hunger Relief

Partners for Hunger Relief is a program of SDRM which was formed to bolster food recovery efforts in San Diego and serve a broad base of agencies and people. SDRM has developed a successful system of locating, recovering and distributing donated food. This food is not only used by SDRM program members, but a large percentage of this food is shared at no cost with a network of nonprofit feeding programs and food pantries throughout San Diego County.

Thrift Store Ministry

SDRM operates three thrift stores located in North Park, National City, and City Heights. The thrift stores offer “gently” used clothing, sports equipment, furniture, and other household items for sale. All items in the thrift stores have been donated by people and businesses from throughout the San Diego community.

Recuperative Care Unit

The Recuperative Care Unit (“RCU”) program addresses the critical need of housing supportive services for homeless individuals requiring post-hospital medical attention. The RCU offers up to 28 patients a safe and supportive environment, meals, oversight of medical treatment, and follow-up care with a typical stay of 1-14 days depending on their needs. The program is partially supported by revenue generated from agreements with hospitals to provide post-hospital recuperative care for specific individuals. The program also helps patients establish eligibility for public benefits and works to secure them long-term housing.

Sleepless America

Sleepless America is the organizational structure SDRM uses to manage and execute the local Sleepless programs for its benefit. The educational materials, events and promotional activities provide a marketplace positioning vehicle for the SDRM to gain a wider audience from which to attract and retain constituent involvement through human and financial investments. The local event activities of Sleepless San Diego are operated by Sleepless America. Since SDRM owns Sleepless America, there is no licenses fee arrangement.

SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed are described below:

Principles of Consolidation

The consolidated financial statements include the accounts of San Diego Rescue Mission, Inc. and Sleepless America, a wholly-owned subsidiary. All material intercompany balances and transactions have been eliminated in consolidation.

**San Diego Rescue Mission
Consolidated Notes to Financial Statements
September 30, 2011 and 2010**

**NOTE 1 – SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Financial Statement Presentation

The consolidated financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

On August 6, 2008, the Financial Accounting Standards Board ("FASB") issued authoritative guidance for endowments of nonprofit organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and enhanced disclosures for all endowment funds. In October, 2008, California adopted UPMIFA with an implementation date of January 1, 2009. The standard provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standard also requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net assets composition, changes in net asset composition, spending policies and related investment policies of its endowment funds.

The Organization adopted this guidance effective October 1, 2008. The adoption of these standards required a classification of net assets as of October 1, 2008 (Note 7).

Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that may affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, accounts receivable, investment in marketable securities, accounts payable, deposits and notes payable. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and deposits approximate fair market value because of the short maturity of those instruments. The carrying value of the Organization's note payable approximates its fair market value based on the current rates offered to the Company for debt with similar terms or maturities. The investment in marketable securities is measured at fair value on a recurring basis.

Topic 820 in the FASB's Accounting Standards Codification, Fair Value Measurements and Disclosures, establishes a three-tier valuation hierarchy for classification of fair value measurements as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, at the measurement date.

Level 3 – Inputs are unobservable for the asset or liability and usually reflect the reporting entity's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The Organization's consolidated statement of financial position includes investment in equity securities and mutual funds that are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.

**San Diego Rescue Mission
Consolidated Notes to Financial Statements
September 30, 2011 and 2010**

**NOTE 1 – SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Accounts Receivable

Management believes that all accounts receivables are fully collectible, and therefore no allowance for doubtful accounts was recorded as of September 30, 2011 and 2010.

Inventories

Inventories of supplies are valued at the lower of cost or market, determined on the first-in, first-out basis.

Land, Buildings and Equipment and Depreciation

Land, buildings and equipment are recorded at cost. The Organization capitalizes items with a value in excess of \$3,000 and an expected life of three years or more. Donations of land, buildings and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire buildings and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or 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. Buildings and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

	<u>Years</u>
Building and improvements	5-40
Equipment	5-7
Furniture and fixtures	5-7
Autos and truck	5-7
Software	5

Depreciation totaled \$501,939 and \$558,101 for the years ended September 30, 2011 and 2010, respectively.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of land, buildings and equipment, the asset and the related accumulated depreciation taken prior to the sale are removed from the Organization's records and any resultant gain or less is credited or charged to earnings.

Impairment of Real Estate

The Organization reviews its investment in real estate for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted net cash flows expected to be generated by the rental property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There was no impairment losses recognized in 2011 or 2010.

Loan Costs and Amortization

Loan costs totaling \$105,490 and \$115,617 net of accumulated amortization of \$46,415 and \$36,288 at September 30, 2011 and 2010, respectively, are amortized over a 15-year period using a straight-line method. Amortization totaled \$10,127 and \$10,127 for the years ended September 30, 2011 and 2010, respectively.

**San Diego Rescue Mission
Consolidated Notes to Financial Statements
September 30, 2011 and 2010**

**NOTE 1 – SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Revenue Recognition

Grant and contract revenue is recognized in the period in which the related work is performed in accordance with the terms of the grant or contract. Grants and contracts receivable are recorded when revenue earned under a grant or contract exceeds the cash received. Deferred revenue is recorded when cash received under a grant or contract exceeds the revenue earned.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor 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. All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions. Expenses are recorded when incurred in accordance with the accrual basis of accounting. Contributions received with temporary restrictions that are met in the same reporting period as received are reported as unrestricted support and increase unrestricted net assets.

Contributed Services, Materials, Clothing and Food

The Organization receives substantial donations of materials, clothing and food. The donations of materials, clothing and food are received at a central location where they are sorted and distributed. The Organization values the materials, clothing and food based on comparable cost estimates.

The nature and extent of donated and contributed services received by the Organization range from the limited participation of many individuals in fundraising activities to active participation in the Organization's management and service programs during 2011 and 2010. The valuation of contributed time is not reflected in these statements since they do not require specialized skills.

The following is a summary of revenue and expenses related to donated items for the years ended September 30:

	<u>2011</u>	<u>2010</u>
Revenue:		
Donated materials	\$ 5,029,974	\$ 5,381,472
Thrift store ministry	1,894,538	1,658,441
Special event	27,219	55,375
Total revenue	<u>\$ 6,951,731</u>	<u>\$ 7,095,288</u>
Expenses:		
Food services	\$ 5,029,974	\$ 5,370,472
Distribution center	1,894,538	1,658,441
Special event	27,219	55,375
Fundraising	-	11,000
Total expenses	<u>\$ 6,951,731</u>	<u>\$ 7,095,288</u>

Allocated Expenses

Expenses by function have been allocated among program and supporting services classifications on the basis of internal records and estimates made by the Organization's management. Facility costs are allocated on the basis of square footage occupied. Warehouse costs are allocated 50% to the various departments based on square footage occupied and 50% to the thrift stores. 40% of food services costs are allocated first to Partners for Hunger Relief and the remaining costs are allocated to the programs based on meals served.

**San Diego Rescue Mission
Consolidated Notes to Financial Statements
September 30, 2011 and 2010**

**NOTE 1 – SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Income Tax Status

SDRM and Sleepless America are nonprofit organizations and are exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. SDRM and Sleepless America are not private foundations.

On October 1, 2009, the Organization adopted authoritative guidance issued by the FASB which clarifies the accounting for uncertainty in income taxes recognized in the Organization's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax positions for purposes of application of this guidance include the tax status of the Organization as an entity exempt from tax and also to what degree the Organization's activities give rise to unrelated business taxable income ("UBTI"). This guidance also addresses de-recognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption of this guidance did not have a material effect on the Organization.

The Organization's federal exempt organization returns for tax years 2007 and beyond remain subject to examination by the Internal Revenue Service. The Organization's exempt organization returns of the tax years 2006 and beyond remain subject to examination by the Franchise Tax Board.

The Organization did not have unrecognized tax benefits as of September 30, 2011 and does not expect this to change significantly over the next 12 months. In connection with the adoption of the guidance pertaining to uncertain tax positions, the Organization will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of September 30, 2011, the Organization has not accrued interest or penalties related to uncertain tax positions.

Concentration of Credit Risk

The Organization's accounts at each financial institution are insured by the Federal Deposit Insurance Corporation ("FDIC"). At various times during the year cash balances may exceed the amount of insurance provided by the FDIC, which provides basic deposit coverage with limits up to \$250,000 per owner. In addition to the basic insurance deposit coverage, the FDIC is providing temporary unlimited coverage for noninterest-bearing transaction accounts from December 31, 2010 through December 31, 2012. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flow, the Organization considers all investment instruments purchased with the maturity of three months or less to be cash equivalents.

Reclassifications

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year consolidated financial statements. These reclassifications were not material and had no effect on net assets.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 19, 2011, the date the consolidated financial statements were available to be issued.

**San Diego Rescue Mission
Consolidated Notes to Financial Statements
September 30, 2011 and 2010**

NOTE 2 – INVESTMENTS IN MARKETABLE SECURITIES

Investments in marketable securities are stated at fair value and consist of the following at September 30:

	<u>2011</u>	<u>2010</u>
Open-ended mutual funds	\$ 5,834	\$ 1,724
Common stock	35,492	12,941
	<u>\$ 41,326</u>	<u>\$ 14,665</u>

NOTE 3 – DEBT SERVICE RESERVE

In accordance with the requirements of the note payable to GE Capital Public Finance, Inc. (discussed further in Note 6), the Organization is required to fund a debt service reserve in an amount equal to the least of (i) maximum annual debt service of the loan, (ii) 10% of the initial principal amount of the loan, or (iii) 125% of the average annual debt service on the loan in each remaining loan year.

The following is the activity in the debt service reserve for the years ended September 30:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 694,608	\$ 752,122
Interest earned	84	270
Withdrawal	-	(57,784)
	<u>\$ 694,692</u>	<u>\$ 694,608</u>

NOTE 4 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at September 30:

	<u>2011</u>	<u>2010</u>
Land	\$ 5,886,842	\$ 5,886,842
Building and improvements	17,310,664	17,285,664
Equipment	156,749	139,729
Furniture and fixtures	221,626	209,526
Autos and trucks	254,481	254,481
Software	331,136	326,136
	<u>24,161,498</u>	<u>24,102,378</u>
Less: accumulated depreciation	<u>(5,054,729)</u>	<u>(4,552,790)</u>
	<u>\$ 19,106,769</u>	<u>\$ 19,549,588</u>

NOTE 5 – LINE-OF-CREDIT

The Organization has a line-of-credit available in the amount of \$500,000. Bank advances are payable on demand at an interest rate of prime plus 0.5% which accumulated to 4% at September 30, 2011. The outstanding balances were \$0 and \$250,000 at September 30, 2011 and 2010, respectively. The line-of-credit is unsecured. Interest expense was \$3,389 and \$10,056 for the years ended September 30, 2011 and 2010, respectively.

**San Diego Rescue Mission
Consolidated Notes to Financial Statements
September 30, 2011 and 2010**

NOTE 6— NOTES PAYABLE

Notes payable consist of the following at September 30:

	2011	2010
<p>Note payable to the Redevelopment Agency of the City of San Diego dated May 19, 2004 in the original amount of \$2,000,000 bears interest at 3% per annum. Interest is deferred over the term of the loan, and the note and accrued interest will be deemed paid in full at maturity if all covenants, conditions and restrictions included in the loan agreement are complied with. The note is due May 2059 and is secured by a deed of trust. Accrued interest totaled \$484,968 and \$411,616 at September 30, 2011 and 2010 respectively.</p>	\$ 2,000,000	\$ 2,000,000
<p>Note payable to the Bank of the West under the Affordable Housing Program dated April 27, 2004 in the original amount of \$1,000,000 is noninterest bearing. Payment of principal balance of the note is deferred for fifteen years. Upon expiration of the 15-year retention period, provided that all covenant, conditions and restrictions included in the loan agreement is complied with, the loan shall be forgiven. The note is due April, 2019 and is secured by a deed of trust.</p>	1,000,000	1,000,000
<p>Note payable to the Department of Housing and Community Development dated August 31, 2005 in the original amount of \$500,000. The loan will be forgiven if all conditions and restrictions included in the agreement are complied with through the loan term ending August 31, 2012 and is secured by a deed of trust.</p>	500,000	500,000
<p>Note payable to San Diego Housing Commission dated September 30, 2005 in the original amount of \$402,368. This note is noninterest bearing except in the case of default, in which event it will bear interest at the rate of 10% per annum from the date of default. The note shall be forgiven entirely at the end of the fifty-fifth year after the date of the note, provided the Organization has complied with all the provisions of the agreement.</p>	402,368	402,368
<p>Note payable to GE Capital Public Finance, Inc. dated December 1, 2006 in the original amount of \$8,365,886 bears interest at 5.55% per annum and is secured by a deed of trust. Principal and interest are payable in monthly installments of \$57,784. The note and accrued interest are due on January 1, 2022. Accrued interest payable totaled \$33,147 and \$34,474 at September 30, 2011 and 2010, respectively.</p>	7,166,978	7,453,924
<p>Note payable to Bank of the West dated November 16, 2009 in the original amount of \$700,000 bears interest at 5.95% per annum and is secured by a deed of trust. Principal and interest are payable in monthly installments of \$5,045 and one irregular last payment estimated at \$598,250 will be due on December 5, 2014. Accrued interest payable totaled \$0 and \$3,400 at September 30, 2011 and 2010, respectively.</p>	665,798	685,529
Total notes payable	11,735,144	12,041,821
Less: current portion	(324,679)	(307,109)
	\$ 11,410,465	\$ 11,734,712

**San Diego Rescue Mission
Consolidated Notes to Financial Statements
September 30, 2011 and 2010**

NOTE 6 – NOTES PAYABLE (CONTINUED)

Interest expense was \$516,655 and \$542,227 for the years ended September 30, 2011 and 2010, respectively. As of September 30, 2011, the Organization was in substantial compliance with the covenants, conditions and restrictions included in the loan agreements.

The future principal payments on the notes payable are as follows:

Year ending September 30,		
2012	\$	324,679
2013		343,255
2014		362,893
2015		955,693
2016		378,477
Thereafter		9,370,147
		\$ 11,735,144

NOTE 7 – NET ASSETS

The Organization's endowment was established to provide general support. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Organization has interpreted the enacted version of the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gift donated to the permanent endowment (2) the original value of subsequent gifts donated to the permanent endowment and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2011.

**San Diego Rescue Mission
Consolidated Notes to Financial Statements
September 30, 2011 and 2010**

NOTE 7 – NET ASSETS (CONTINUED)

The Organization has adopted investment and spending policies for endowment funds that:

1. Protect the invested assets
2. Preserve spending capacity of the fund income
3. Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a moderate level
4. Comply with applicable laws

The Organization's endowment funds are invested in money market funds. The Organization's spending policy is to disburse funds available to meet the current program needs of the Organization.

Net assets consist of the following at September 30, 2011 and 2010:

	2011	2010
Unrestricted:		
Undesignated	\$ 7,955,806	\$ 7,478,353
Temporarily restricted:		
Recuperative care unit	-	160,250
Chiller	-	25,000
Transitional housing for women	-	25,000
Specific facility improvements	85,959	-
Earnings from endowment	2,083	1,904
	88,042	212,154
Permanently restricted:		
Endowment fund	14,294	12,630
Total net assets	\$ 8,058,142	\$ 7,703,137

**San Diego Rescue Mission
Consolidated Notes to Financial Statements
September 30, 2011 and 2010**

NOTE 8 – LEASE AGREEMENTS

Facility and Equipment Leases

The Organization leases commercial space for the thrift store in National City. The term of the lease is from August 1, 2007 to July 31, 2012. Rent expense under this commercial lease totaled \$131,251 and \$238,358 for the years ended September 30, 2011 and 2010, respectively.

The Organization has entered into various noncancellable operating equipment leases.

Future minimum rental payments under all leases are as follows:

Year Ending September 30,	Equipment leases	Facility leases	Total minimum lease payments
2012	\$ 122,553	\$ 109,791	\$ 232,344
2013	132,276	-	132,276
2014	132,276	-	132,276
2015	121,136	-	121,136
2016	109,667	-	109,667
Thereafter	196,347	-	196,347
	<u>\$ 814,255</u>	<u>\$ 109,791</u>	<u>\$ 924,046</u>

Rental Income

The Organization owns the building located at 120 Elm Street, San Diego, California and leases space to others in this building under month-to-month operating leases and term leases which expire on various dates through September 2012. The leases include scheduled rent increased, payments for tenant improvements, and payment for common area maintenance.

Rental income under lease agreements totaled \$413,097 and \$477,678 for the years ended September 30, 2011 and 2010, respectively.

The related future minimum lease income is as follows:

Year ending September 30,	
2012	\$ 214,143
	<u>\$ 214,143</u>

**San Diego Rescue Mission
Consolidated Notes to Financial Statements
September 30, 2011 and 2010**

NOTE 9 – PENSION PLAN

The Organization adopted a 403(b) Thrift Plan (the “Thrift Plan”) in 1998. The Thrift Plan is available to all full-time employees and employees may elect to make voluntary contributions to it. The Organization has no obligation to match employee contributions and made no matching contributions for the years ended September 30, 2011 and 2010.

The Organization established a discretionary contribution plan (the “Contribution Plan”) in April, 2000. The Contribution Plan covers all full-time employees. The Organization may elect to make discretionary contributions to the Contribution Plan, but employees may not contribute to it. The Organization did not make any contributions to the Contribution Plan for the years ended September 30, 2011 and 2010.

SUPPLEMENTAL SCHEDULES

**San Diego Rescue Mission
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2011**

	Program Services						Supporting Services			Total
	Men, Women and Children's Services	Partners for Hunger Relief	Thrift Store Ministry	Recuperative Care Unit	Sleepless America	Total Program Services	Fundraising	Management and General	Supporting Services	
Salaries and wages	\$ 947,939	\$ -	\$ 171,382	\$ 260,885	\$ -	\$ 1,380,206	\$ 225,377	\$ 445,574	\$ 670,951	\$ 2,051,157
Employee benefits	102,042	-	11,285	20,090	-	133,417	16,685	44,866	61,451	194,868
Payroll tax expense	76,453	-	17,795	23,744	-	117,992	19,372	33,498	52,870	170,862
Donated food and material	-	-	-	-	2,170	-	992,203	-	992,203	994,373
Fundraising	-	-	-	-	-	-	-	-	-	17,284
Utilities	-	-	17,284	-	-	17,284	-	-	-	134,191
Rent	-	-	134,191	-	-	134,191	-	-	-	18,274
Outside services	7,306	-	-	300	-	7,606	-	10,668	10,668	-
Auto expense	-	-	-	-	-	-	-	-	-	-
Supplies	2,289	-	5,909	2,513	-	10,711	3,640	15,006	18,646	29,357
Food services	-	-	-	-	-	-	-	-	-	-
Repairs and maintenance	-	-	2,107	-	-	2,107	-	-	-	2,107
Insurance	-	-	-	-	-	-	-	-	-	-
Public relations	-	-	37,229	-	-	37,229	-	-	-	37,229
Communications	-	-	7,360	-	-	7,360	-	-	-	7,360
Equipment rental	-	-	-	-	-	-	-	1,272	1,272	1,272
Professional fees	-	-	-	-	175	175	-	33,069	33,069	33,244
Permit/license	18,352	-	-	-	10	18,362	-	10,315	10,315	28,677
Bank fees	-	-	10,395	-	-	10,395	-	38,675	38,675	49,070
Client services	24,021	-	-	4,567	-	28,588	-	-	-	28,588
Postage	-	-	-	-	-	-	1,429	2,443	3,872	3,872
Dues and subscriptions	-	-	-	-	-	-	1,409	10,036	11,445	11,445
Meal, travel, and entertainment	203	-	-	313	-	516	1,773	6,500	8,273	8,789
Other	-	-	151	-	-	151	-	164	164	315
Security	-	-	632	-	-	632	-	-	-	632
Amortization	-	-	-	-	-	-	-	10,127	10,127	10,127
Interest	386,749	-	37,413	39,777	-	463,939	-	17,766	17,766	481,705
Depreciation	379,487	-	5,128	39,030	-	423,645	3,024	14,892	17,916	441,561
Facilities allocated costs	686,467	-	-	70,603	-	757,070	-	25,518	25,518	782,588
Distribution center allocated costs	986,358	-	1,174,237	-	-	2,160,595	-	23,485	23,485	2,184,080
Food services allocated costs	2,620,503	3,178,327	-	196,543	-	5,995,373	-	-	-	5,995,373
Total program and supporting services expenses	\$ 6,238,169	\$ 3,178,327	\$ 1,632,498	\$ 658,365	\$ 2,355	\$ 11,709,714	\$ 1,264,812	\$ 743,874	\$ 2,008,686	\$ 13,718,400

**San Diego Rescue Mission
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2010**

	Program Services						Supporting Services				2010 Total
	Men, Women and Children's Services	Partners for Hunger Relief	Thrift Store Ministry	Re recuperative Care Unit	Sleepless America	Total Program Services	Fundraising	Management and General	Total Supporting Services		
Salaries and wages	\$ 977,663	\$ -	\$ 217,268	\$ 229,555	\$ -	\$ 1,424,486	\$ 177,893	\$ 442,043	\$ 619,936	\$ 2,044,422	
Employee benefits	99,280	-	25,194	21,100	-	145,574	14,197	21,018	35,215	180,789	
Payroll tax expense	83,734	-	21,476	20,912	-	126,122	15,069	32,866	47,935	174,057	
Donated food and materials	-	-	-	-	-	-	11,000	-	11,000	11,000	
Fundraising	-	-	-	-	2,565	2,565	1,395,513	-	1,395,513	1,395,078	
Utilities	-	-	19,560	-	-	19,560	-	-	-	19,560	
Rent	-	-	238,358	-	-	238,358	-	-	-	238,358	
Outside services	5,497	-	-	-	-	5,497	69	28,019	28,088	33,585	
Auto expense	-	-	-	-	-	-	-	-	-	-	
Supplies	2,331	-	15,232	2,005	-	19,568	3,795	5,073	8,868	28,436	
Food	-	-	-	-	-	-	-	-	-	-	
Repairs and maintenance	-	-	1,024	-	-	1,024	-	-	-	1,024	
Insurance	-	-	33,110	-	-	33,110	-	-	-	33,110	
Public relations	-	-	3,972	-	-	3,972	-	-	-	3,972	
Communications	-	-	-	-	-	-	-	-	-	-	
Equipment rental	-	-	-	-	4,898	4,898	-	1,410	1,410	1,410	
Professional fees	-	-	-	-	-	-	-	21,929	21,929	26,827	
Permit/license	4,580	-	1,373	-	10	5,963	-	5,403	5,403	11,366	
Bank fees	-	-	9,321	-	-	9,321	-	43,133	43,133	52,454	
Client services	27,371	-	-	5,702	-	33,073	-	-	-	33,073	
Postage	-	-	-	-	-	-	5,950	2,455	8,405	8,405	
Dues and subscriptions	-	-	-	-	-	-	3,817	8,821	12,638	12,638	
Meal, travel, and entertainment	178	-	-	48	-	226	1,948	5,885	7,833	8,059	
Other	-	-	(1,145)	-	-	(1,145)	-	388	388	(757)	
Security	-	-	1,694	-	-	1,694	-	-	-	1,694	
Amortization	-	-	-	-	-	-	-	10,127	10,127	10,127	
Interest	409,868	-	34,336	42,155	-	486,359	-	25,293	25,293	511,652	
Depreciation	422,030	-	4,274	43,406	-	469,710	5,941	17,644	23,585	493,295	
Facilities allocated costs	606,354	-	-	62,569	-	670,923	-	22,615	22,615	693,538	
Distribution center allocated costs	882,649	-	1,050,774	-	-	1,933,423	-	21,015	21,015	1,954,438	
Food services allocated costs	2,946,517	3,288,200	-	202,842	-	6,339,559	-	-	-	6,339,559	
Total program and supporting services expenses	\$ 6,372,052	\$ 3,288,200	\$ 1,675,821	\$ 630,294	\$ 7,473	\$ 11,973,840	\$ 1,635,192	\$ 715,137	\$ 2,350,329	\$ 14,324,169	