

SAN DIEGO RESCUE MISSION, INC.
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009



Leaf & Cole, LLP
Certified Public Accountants

SAN DIEGO RESCUE MISSION, INC.
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Independent Auditor's Report

To the Board of Directors
San Diego Rescue Mission, Inc.
120 Elm Street
San Diego, California 92101

We have audited the accompanying consolidated statement of financial position of San Diego Rescue Mission, Inc. as of September 30, 2009, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the Organization's 2008 financial statements and in our report dated December 9, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides 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 San Diego Rescue Mission, Inc. as of September 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the consolidated financial statements, the accounts of Sleepless America have been included in the consolidated financial statements for the year ended September 30, 2009. This represents a change in reporting entity.

Leaf & Cole LLP
San Diego, California
January 13, 2010

SAN DIEGO RESCUE MISSION, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2009
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2008)

ASSETS

	<u>2009</u>	<u>2008</u>
<u>Current Assets:</u> (Notes 1 and 2)		
Cash and cash equivalents	\$ 408,794	\$ 271,020
Investments	12,616	7,244
Accounts receivable	42,432	75,314
Insurance receivable	-	255,000
Inventories	9,683	6,221
Prepaid expenses	37,132	140,651
Total Current Assets	<u>510,657</u>	<u>755,450</u>
<u>Noncurrent Assets:</u> (Notes 1, 3, 4 and 7)		
Debt service reserve	752,122	743,564
Land, buildings and equipment, net	19,208,103	19,536,732
Loan costs, net	125,743	135,870
Total Noncurrent Assets	<u>20,085,968</u>	<u>20,416,166</u>
TOTAL ASSETS	\$ <u>20,596,625</u>	\$ <u>21,171,616</u>

The accompanying notes are an integral part of the consolidated financial statements.

SAN DIEGO RESCUE MISSION, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2009
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2008)

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
<u>Current Liabilities:</u> (Notes 1, 5, 6 and 7)		
Accounts payable and accrued expenses	\$ 208,089	\$ 451,987
Compensated absences	138,220	115,038
Interest payable	35,730	36,918
Prepaid rent	16,493	-
Deferred revenue	228,754	-
Security deposit	42,523	43,770
Line-of-credit	400,000	400,000
Current portion of long-term debt	251,489	256,865
Total Current Liabilities	<u>1,321,298</u>	<u>1,304,578</u>
<u>Noncurrent Liabilities:</u> (Note 7)		
Notes payable, net of current portion	11,376,292	11,627,781
Interest payable	325,143	256,509
Total Noncurrent Liabilities	<u>11,701,435</u>	<u>11,884,290</u>
 Total Liabilities	 <u>13,022,733</u>	 <u>13,188,868</u>
<u>Commitments</u> (Notes 9 and 10)		
<u>Net Assets:</u> (Notes 1 and 8)		
Unrestricted	7,564,531	7,974,039
Temporarily restricted	1,731	-
Permanently restricted	7,630	8,709
Total Net Assets	<u>7,573,892</u>	<u>7,982,748</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$ <u>20,596,625</u>	 \$ <u>21,171,616</u>

The accompanying notes are an integral part of the consolidated financial statements.

SAN DIEGO RESCUE MISSION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2008)

	2009			Total	2008
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and Support:					
Donated materials (Note 1)	\$ 6,860,836	\$ -	\$ -	\$ 6,860,836	\$ 7,634,938
Contributions	4,985,604	-	-	4,985,604	5,059,234
Thrift store ministry	1,901,816	-	-	1,901,816	2,284,368
Grant income	413,176	-	-	413,176	258,505
Rental income	400,754	-	-	400,754	427,267
Special events	177,734	-	-	177,734	267,923
Contracts	133,018	-	-	133,018	180,238
Vehicle donation sales	88,177	-	-	88,177	76,524
Miscellaneous income	23,692	-	-	23,692	119,103
Investment income	10,441	652	-	11,093	15,833
Insurance proceeds	-	-	-	-	77,579
Total Revenue and Support	<u>14,995,248</u>	<u>652</u>	<u>-</u>	<u>14,995,900</u>	<u>16,401,512</u>
Expenses:					
Program services:					
Food services	7,559,260	-	-	7,559,260	8,325,226
Thrift store ministry	1,775,622	-	-	1,775,622	2,074,211
Facilities	1,758,021	-	-	1,758,021	1,771,133
Men, women, and children's services	1,404,803	-	-	1,404,803	1,274,453
Distribution center	519,784	-	-	519,784	532,927
Sleepless America	11,189	-	-	11,189	-
Total Program Services	<u>13,028,679</u>	<u>-</u>	<u>-</u>	<u>13,028,679</u>	<u>13,977,950</u>
Supporting Services:					
Fundraising	1,625,026	-	-	1,625,026	1,722,847
Management and general	665,208	-	-	665,208	719,781
Total Supporting Services	<u>2,290,234</u>	<u>-</u>	<u>-</u>	<u>2,290,234</u>	<u>2,442,628</u>
Total Program and Supporting Expenses	<u>15,318,913</u>	<u>-</u>	<u>-</u>	<u>15,318,913</u>	<u>16,420,578</u>
Special Event Expenses	<u>85,843</u>	<u>-</u>	<u>-</u>	<u>85,843</u>	<u>120,147</u>
Total Expenses	<u>15,404,756</u>	<u>-</u>	<u>-</u>	<u>15,404,756</u>	<u>16,540,725</u>
Change in Net Assets	(409,508)	652	-	(408,856)	(139,213)
Net Assets at Beginning of Year	7,974,039	-	8,709	7,982,748	8,121,961
Reclassification of net assets (Note 8)	-	1,079	(1,079)	-	-
NET ASSETS AT END OF YEAR	<u>\$ 7,564,531</u>	<u>\$ 1,731</u>	<u>\$ 7,630</u>	<u>\$ 7,573,892</u>	<u>\$ 7,982,748</u>

The accompanying notes are an integral part of the consolidated financial statements.

SAN DIEGO RESCUE MISSION, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2009
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2008)

	Program Services						Supporting Services			2009 Total	2008 Total	
	Distribution Center	Facilities	Men, Women and Children's Services	Food Services	Thrift Store Ministry	Sleepless America	Total Program Services	Fundraising	Management and General			Total Supporting Services
Operating Expenses:												
Salaries and wages	\$ 262,158	\$ 140,121	\$ 1,094,886	\$ 180,111	\$ 205,488	\$ -	\$ 1,882,764	\$ 208,195	\$ 441,514	\$ 649,709	\$ 2,532,473	\$ 2,461,455
Employee benefits	26,242	24,846	108,493	36,155	33,330	-	229,066	10,569	25,130	35,699	264,765	273,492
Payroll tax expense	15,452	11,869	89,462	22,107	20,409	-	159,299	17,873	32,220	50,093	209,392	206,324
Total Salaries and Related	303,852	176,836	1,292,841	238,373	259,227	-	2,271,129	236,637	498,864	735,501	3,006,630	2,941,271
In-kind (Note 1)	-	-	-	6,860,836	1,127,294	-	7,988,130	-	-	-	7,988,130	8,999,880
Fundraising	-	-	-	-	-	5,671	5,671	1,343,146	-	1,343,146	1,348,817	1,500,298
Utilities	32,131	280,303	-	10,923	21,196	-	344,553	-	-	-	344,553	348,066
Rent	-	-	-	17,693	316,150	-	333,843	-	-	-	333,843	300,876
Outside services	-	-	25,370	124,282	-	-	149,652	-	11,477	11,477	161,129	124,139
Auto expense	67,599	15,462	-	67,232	-	-	150,293	1,437	1,657	3,094	153,387	205,667
Supplies	9,271	-	4,121	97,347	4,168	19	114,926	4,561	8,167	12,728	127,654	117,463
Food services	-	-	-	124,295	-	-	124,295	-	-	-	124,295	148,224
Repairs and maintenance	2,418	114,830	-	-	402	-	117,650	-	-	-	117,650	84,741
Insurance	-	108,760	-	-	-	-	108,760	-	-	-	108,760	113,419
Public relations	93,350	-	-	-	4,382	-	97,732	-	-	-	97,732	113,079
Communications	1,661	44,751	-	-	4,176	-	50,588	-	-	-	50,588	57,535
Equipment rental	7,081	6,840	6,840	12,891	6,840	-	40,492	-	8,356	8,356	48,848	52,091
Professional fees	-	-	-	-	-	4,424	4,424	-	40,473	40,473	44,897	29,073
Permit/license	-	-	39,561	-	625	-	40,186	-	-	-	40,186	8,948
Bank fees	-	-	-	-	8,141	-	8,141	-	30,369	30,369	38,510	42,106
Client services	-	-	23,553	965	-	-	24,518	-	-	-	24,518	29,887
Relocation and other	2,400	1,535	-	1,395	2,068	-	7,398	1,166	6,743	7,909	15,307	7,095
Postage	21	-	-	-	-	17	38	7,570	3,340	10,910	10,948	12,758
Drug testing	-	-	-	-	-	-	-	-	9,044	9,044	9,044	8,209
Dues and subscriptions	-	-	-	105	-	-	105	984	7,787	8,771	8,876	12,062
Meal, travel, and entertainment	-	-	160	-	-	1,058	1,218	1,091	3,420	4,511	5,729	4,826
Graduation	-	-	3,250	-	-	-	3,250	-	-	-	3,250	1,968
Total Operating Expenses	519,784	749,317	1,395,696	7,556,337	1,754,669	11,189	11,986,992	1,596,592	629,697	2,226,289	14,213,281	15,263,681
Other Expenses:												
Depreciation	-	504,460	9,107	2,923	20,953	-	537,443	28,434	8,533	36,967	574,410	605,656
Amortization	-	-	-	-	-	-	-	-	10,127	10,127	10,127	10,127
Interest	-	504,244	-	-	-	-	504,244	-	16,851	16,851	521,095	541,114
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	\$ 519,784	\$ 1,758,021	\$ 1,404,803	\$ 7,559,260	\$ 1,775,622	\$ 11,189	\$ 13,028,679	\$ 1,625,026	\$ 665,208	\$ 2,290,234	\$ 15,318,913	\$ 16,420,578

The accompanying notes are an integral part of the consolidated financial statements.

SAN DIEGO RESCUE MISSION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2008)

	<u>2009</u>	<u>2008</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (408,856)	\$ (139,213)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	584,537	615,783
Net unrealized and realized depreciation	(1,418)	10,984
Gain on disposal of assets	-	(77,579)
(Increase) Decrease in:		
Accounts receivable	32,882	(27,272)
Insurance receivable	255,000	(255,000)
Inventories	(3,462)	(3,096)
Prepaid expenses	103,519	19,097
Increase (Decrease) in:		
Accounts payable and accrued expenses	(243,898)	250,415
Compensated absences	23,182	21,356
Interest payable	67,446	61,349
Prepaid rent	16,493	-
Deferred revenue	228,754	-
Security deposit	(1,247)	3,516
Net Cash Provided by Operating Activities	<u>652,932</u>	<u>480,340</u>
<u>Cash Flows From Investing Activities:</u>		
Investment purchases and sales, net	(3,954)	(5,204)
Debt service reserve deposits	(8,558)	(26,182)
Purchase of land, buildings, and equipment	(245,781)	(190,959)
Proceeds from disposal of buildings and equipment	-	262,957
Net Cash (Used in) Provided by Investing Activities	<u>(258,293)</u>	<u>40,612</u>
<u>Cash Flows From Financing Activities:</u>		
Line-of-credit advances, net	-	(200,000)
Principal payments on notes payable	(256,865)	(243,028)
Net Cash Used in Financing Activities	<u>(256,865)</u>	<u>(443,028)</u>
Net Increase in Cash and Cash Equivalents	137,774	77,924
Cash and Cash Equivalents at Beginning of Year	<u>271,020</u>	<u>193,096</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 408,794</u>	<u>\$ 271,020</u>
<u>Supplemental Disclosures for Cash Flow Information:</u>		
Cash paid during the year for interest	<u>\$ 453,405</u>	<u>\$ 478,389</u>

The accompanying notes are an integral part of the consolidated financial statements.

SAN DIEGO RESCUE MISSION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2008)

Note 1 - Organization and Significant Accounting Policies:

Organization

The consolidated financial statements of the Organization included 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 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 is a national outreach initiative to build awareness, raise funds, and activate public involvement with homeless solutions across the country. It will use education, cause-related marketing, multiple media and promotional events to facilitate its goals. Local Sleepless activities will be licensed to a host agency with annual rights to use the intellectual property related to the Sleepless brand.

The following is a brief description of the Organization’s programs:

Men, Women and Children’s Services

Men’s Center

The residential program is designed to incorporate biblical principles into lives of believers, 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 1-year discipleship program that help individuals with their needs through scripture-based lessons, support groups/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, 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 SDRM for a warm, safe place to sleep, a place to shower and get clean clothes, and a nutritious breakfast.

SAN DIEGO RESCUE MISSION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2008)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Organization (Continued)

Men, Women and Children's Services (Continued)

Women and Children's Services

For lasting change, 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 residence and enable them to overcome addictions and unhealthy relationships. Specialized programs are also provided for children living in the Mission's 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.

Food Services

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 enjoyed 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 El Cajon. 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.

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 activity provide a marketplace positioning vehicle for the mission 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 licensed fee arrangement.

SAN DIEGO RESCUE MISSION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2008)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies

Consolidated Financial Statements

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

Method of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles and, accordingly, reflect all significant receivables, payables, and other liabilities.

In June 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) was issued. The Codification is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification is effective for financials statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard did not have a material impact on the consolidated financial position and results of operations.

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 FASB issued reporting standards for endowments of not-for-profit 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 asset composition, changes in net asset composition, spending policies and related investment policies of its endowment funds. The Organization adopted the standards effective October 1, 2008. The adoption of these standards required a classification of net assets as of October 1, 2008 (Note 8).

SAN DIEGO RESCUE MISSION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2008)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Estimates

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

Fair Value Measurements

Effective October 1, 2008, the Organization adopted the fair value standards for financial assets and liabilities that are required to be measured at fair value on a recurring basis. The Fair Value Measurement standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified with Level 3 of the hierarchy). These standards do not change existing guidance as to whether or not an instrument is carried at fair value. As of October 1, 2008, the Organization determined that the implementation of these standards did not have a significant impact on the financial assets and liabilities in the consolidated financial statements.

The Organization's consolidated statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments - Investments in equity securities and mutual funds 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.

Accounts Receivable

Management believes that all accounts receivable were fully collectible, therefore no allowance for doubtful accounts was recorded as of September 30, 2009 and 2008.

Inventories

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

SAN DIEGO RESCUE MISSION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2008)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Land, Buildings and Equipment and Depreciation

Land, buildings and equipment are recorded at cost. 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 and accelerated methods over the estimated useful asset lives as follows:

Buildings and improvements	5-40 years
Equipment	5-7 years
Furniture and fixtures	5-7 years
Autos and trucks	5-7 years
Software	5 years

Depreciation aggregated \$574,410 and \$605,656 for the years ended September 30, 2009 and 2008, 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 loss is credited or charged to earnings.

In 2008, the Organization was awarded an insurance claim of \$255,000 for fire damage to the warehouse building structure, which generated a gain on the involuntary conversion of the building totaling \$77,579. The remaining insurance refund receivable was \$-0- and \$255,000 at September 30, 2009 and 2008, respectively, and is included in insurance receivable in the consolidated statement of financial position.

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 were no impairment losses recognized in 2009 or 2008.

SAN DIEGO RESCUE MISSION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2008)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Loan Costs and Amortization

Loan costs totaling \$125,743 and \$135,870, net of accumulated amortization of \$26,161 and \$16,034 at September 30, 2009 and 2008, respectively are amortized over a 15 year period using the straight-line method. Amortization aggregated \$10,127 and \$10,127 for the years ended September 30, 2009 and 2008, respectively.

Compensated Absences

Vested or accumulated vacation is recorded as an expense and liability as benefits accrue to employees. Compensated absences totaled \$138,220 and \$115,038 at September 30, 2009 and 2008, respectively.

Revenue Recognition

Grant and contract revenue are 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. Deferred revenue from grants and contracts totaled \$228,754 and \$-0- at September 30, 2009 and 2008, respectively.

Contributions

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.

Contributed Services, Materials, Clothing and Food

The Organization has received 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 ranges from the limited participation of many individuals in fundraising activities to active participation in the Organization's management and service programs during 2009 and 2008. The valuation of contributed time is not reflected in these statements since they do not require specialized skills.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
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Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Contributed Services, Materials, Clothing and Food (Continued)

The donations of materials, clothing and food have been expensed. The donation of construction costs have been capitalized as building costs. The following is a summary of revenue and expenses related to donated items for the years ended September 30:

	<u>2009</u>	<u>2008</u>
<u>Revenue:</u>		
Donated materials	\$ 6,860,836	\$ 7,634,938
Thrift store ministry	1,127,294	1,420,610
Total Revenue	\$ 7,988,130	\$ 9,055,548
 <u>Expenses:</u>		
Food services	\$ 6,860,836	\$ 7,579,270
Thrift store ministry	1,127,294	1,420,610
Total Expenses	7,988,130	8,999,880
 <u>Capitalized:</u>		
Building construction	-	55,668
Total In-Kind Donations	\$ 7,988,130	\$ 9,055,548

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.

Income Tax Status

SDRM and Sleepless America are nonprofit organizations and are exempt from income taxes 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.

The Organization uses a loss contingencies approach for evaluating uncertain tax positions and continually evaluates changes in tax law and new authoritative rulings.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
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Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Comparative Totals for September 30, 2008

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2008, from which the summarized information was derived.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 13, 2010, the date the consolidated financial statements were available to be issued. Subsequent events have been included in Notes 11 and 13.

Note 2 - Investments:

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

	<u>2009</u>	<u>2008</u>
Open-Ended Mutual Funds	\$ 1,009	\$ 976
Common Stock	11,607	6,268
Total Investments	<u>\$ 12,616</u>	<u>\$ 7,244</u>

The following schedule summarizes the investment return and its classification in the consolidated statement of activities for the years ended September 30:

	<u>2009</u>			<u>2008</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
Interest and dividend income	\$ 10,327	\$ -	\$ 10,327	\$ 26,817
Net unrealized and realized appreciation (depreciation)	766	652	1,418	(10,984)
Total Investment Income	<u>\$ 11,093</u>	<u>\$ 652</u>	<u>\$ 11,745</u>	<u>\$ 15,833</u>

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Note 3 – Debt Service Reserve:

In accordance with the requirements of the note payable to GE Capital Public Finance, Inc., 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>2009</u>	<u>2008</u>
Balance, Beginning of Year	\$ 743,564	\$ 717,382
Interest earned	8,558	26,182
Balance, End of Year	<u>\$ 752,122</u>	<u>\$ 743,564</u>

Note 4 - Land, Buildings and Equipment:

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

	<u>2009</u>	<u>2008</u>
Land	\$ 5,236,842	\$ 5,236,842
Buildings and improvements	17,071,981	16,871,712
Equipment	137,896	105,985
Furniture and fixtures	209,526	195,925
Autos and trucks	228,488	228,488
Software	318,059	318,059
Subtotal	<u>23,202,792</u>	<u>22,957,011</u>
Less: Accumulated depreciation	<u>(3,994,689)</u>	<u>(3,420,279)</u>
Land, Buildings and Equipment - Net	<u>\$ 19,208,103</u>	<u>\$ 19,536,732</u>

Note 5 - Deferred Revenue

Deferred revenue consists of the following grants and contracts at September 30:

	<u>2009</u>	<u>2008</u>
United Way - 10-Year Plan to End Chronic Homelessness in the San Diego Region (PTECH) Plan	\$ 178,754	\$ -
County of San Diego – purchase of new chiller system	25,000	-
Sempra Energy - Women’s transitional housing service relocation	25,000	-
Total Deferred Revenue	<u>\$ 228,754</u>	<u>\$ -</u>

Note 6 - Line-of-Credit:

The Organization has a line-of-credit available in the amount of \$750,000. Bank advances are payable on demand and carry an interest rate of prime plus .5%, (4.00% at September 30, 2009). The outstanding balances were \$400,000 and \$400,000 at September 30, 2009 and 2008, respectively. The line-of-credit is unsecured.

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Note 7 - Notes Payable:

Notes payable consist of the following at September 30:

	<u>2009</u>	<u>2008</u>
<p>Note payable to the Redevelopment Agency of the City of San Diego dated July 2, 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 July, 2059. Secured by deed of trust. Accrued interest totaled \$325,143 and \$256,509 at September 30, 2009 and 2008, 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 (15) years. Upon expiration of the 15-year retention period, provided that all covenants, conditions and restrictions included in the loan agreements are complied with, the loan shall be forgiven. The note is due April, 2019. Secured by a deed of trust.</p>	1,000,000	1,000,000
<p>Note payable to the Department of Housing and Community Development, a public agency of the State of California dated August 31, 2005 in the original amount of \$500,000. The loan will be forgiven if all conditions and restrictions included in the Regulatory Agreement are complied with through the loan term ending August 31, 2012. 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 shall not bear interest 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. Principal and interest are payable in monthly installments of \$57,784. The note and accrued interest are due on January 1, 2022. Secured by a deed of trust. Accrued interest payable totaled \$35,730 and \$36,918 at September 30, 2009 and 2008, respectively.</p>	7,725,413	7,982,278
Total Notes Payable	11,627,781	11,884,646
Less: Current portion	(251,489)	(256,865)
Notes Payable, Net	\$ 11,376,292	\$ 11,627,781

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Note 7 - Notes Payable: (Continued)

As of September 30, 2009, 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:

<u>Years Ended</u> <u>September 30,</u>	
2010	\$ 251,489
2011	286,946
2012	803,283
2013	320,550
2014	338,800
Thereafter	<u>9,626,713</u>
	<u>\$ 11,627,781</u>

Note 8 – Endowment 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 Uniform Prudent Management of Institutional Funds Act of 2006 (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 gifts 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

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Note 8 – Endowment Net Assets: (Continued)

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, 2009.

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.

Endowment Composition by Type of Fund as of September 30, 2009:

	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ <u>1,731</u>	\$ <u>7,630</u>	\$ <u>9,361</u>

Changes in Endowment Net Assets for the Year Ended September 30, 2009:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 8,709	\$ 8,709
Net asset reclassification	<u>1,079</u>	<u>(1,079)</u>	<u>-</u>
Endowment net assets after reclassification	1,079	7,630	8,709
Investment income	<u>652</u>	<u>-</u>	<u>652</u>
Endowment Net Assets, End of Year	\$ <u>1,731</u>	\$ <u>7,630</u>	\$ <u>9,361</u>

Note 9 - Lease Agreements:

Commercial Leases

The Organization leases commercial space for the thrift store in North Park. The term of the lease is from September 1, 2008 to August 31, 2009.

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.

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Note 9 - Lease Agreements: (Continued)

Commercial Leases (Continued)

The Organization leases commercial space for the thrift store in El Cajon. The term of the lease is from February 1, 2006 to January 31, 2011. The Organization pays a monthly rent plus common area maintenance.

Rent expense under these commercial leases totaled \$333,843 and \$300,876 for the years ended September 30, 2009 and 2008, respectively.

Future minimum rental payments are as follows:

<u>Years Ended</u> <u>September 30,</u>	
2010	\$ 189,742
2011	135,447
2012	109,791
	<u>\$ 434,980</u>

Operating Lease Agreements

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

Rental income under lease agreements totaled \$400,754 and \$427,267 for the years ended September 30, 2009 and 2008, respectively.

The related future minimum lease income is as follows:

<u>Years Ended</u> <u>September 30,</u>	<u>Amount</u>
2010	\$ 438,675
2011	92,250
2012	96,600
	<u>\$ 627,525</u>

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Note 10 - Pension Plan:

The Organization adopted a 403(b) Thrift Plan (Plan) in 1998. The Plan is available to all full-time employees. Employees may elect to make voluntary contributions to the Plan. The Organization has no obligation to match employee contributions and made no matching contributions for the years ended September 30, 2009 and 2008. The Organization established a discretionary contribution plan in April, 2000. The Plan covers all full-time employees. The Organization may elect to make discretionary contributions to the Plan, but employees may not contribute to the Plan. The Organization did not make a discretionary contribution to the Plan for the years ended September 30, 2009 and 2008.

Note 11 - Bequests:

The Organization is a ¼ beneficiary of the Richard C. Moran 1984 Trust (the "Trust"). Richard C. Moran passed away on February 12, 2008. The ultimate liquidation of the real property and estimation of the net proceeds available for distribution cannot be determined at September 30, 2009. Due to the uncertainties surrounding the valuation of the distributions, the Organization has not recorded a receivable from the Trust at September 30, 2009. On December 14, 2009, the Organization received \$305,542 from the Trust.

Note 12 – Change in Reporting Entity:

San Diego Rescue Mission, Inc. is the sole member of Sleepless America and controls and operates its activities. Sleepless America has been consolidated with San Diego Rescue Mission, Inc. effective November 7, 2008, the date of its incorporation.

Note 13 – Subsequent Events

On November 16, 2009, the Organization increased its line-of-credit to \$1,200,000, which consists of \$700,000 for the purchase of the North Park Thrift Store and \$500,000 to be utilized as a line-of-credit. On December 11, 2009, the Organization purchased the North Park Thrift Store for \$850,000.