San Diego Rescue Mission
Consolidated Financial Statements

September 30, 2015 and 2014

Swenson Advisors, LLP

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CERTIFIED PUBLIC ACCOUNTANTS

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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") which comprise the consolidated statements of financial position as of September 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the San Diego Rescue Mission as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated statements of functional expenses on pages 19 and 20 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

SWENSON ADVISORS, LLP
San Diego, California
February 9, 2016

San Diego Rescue Mission
Consolidated Statements of Financial Position
September 30, 2015 and 2014

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	$ 3,785,585	$ 5,875,679
Investments in marketable securities	2,055	2,033
Accounts receivable	156,327	135,231
Prepaid expenses	136,761	125,142
Other current assets	15,724	37,991
Inventory, net	307,028	253,599
	4,403,480	6,429,675
Property and equipment	17,551,895	18,040,801
Other assets		
Loan cost, net	59,714	64,307
Restricted cash	399,320	84,433
Other long-term assets	27,687	35,278
	486,721	184,018
Total assets	$ 22,442,096	$ 24,654,494
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	$ 552,576	$ 405,518
Deferred revenue	13,643	38,630
Compensated absences	129,872	152,724
Security deposit	5,000	5,000
Current portion of notes payable	149,126	177,182
	850,217	779,054
Long-term liabilities		
Notes payable	8,487,788	9,974,798
Interest payable	801,374	718,682
Deferred rent	40,270	42,124
Capital lease obligation	9,195	17,276
	9,338,627	10,752,880
Total liabilities	10,188,844	11,531,934
Commitments (Note 7)	-	-
Net assets		
Unrestricted	11,851,891	13,033,886
Temporarily restricted	4,246	6,559
Permanently restricted	397,115	82,115
Total net assets	12,253,252	13,122,560
Total liabilities and net assets	$ 22,442,096	$ 24,654,494

See accompanying notes to the consolidated financial statements

San Diego Rescue Mission
Consolidated Statements of Activities
For the Years Ended September 30, 2015 and 2014

	2015	2014
Changes in net assets - unrestricted		
Revenues and support		
Donated food	$ **7,999,489**	$ 7,603,826
Contributions	**6,019,126**	9,744,365
Thrift stores	**3,525,705**	3,145,632
Grants and contracts	**494,094**	293,572
Rental income	**209,066**	283,968
Recuperative care unit	**287,450**	307,455
Special events	**160,398**	84,802
Vehicle donation sales	**59,067**	40,493
Miscellaneous income	**131,228**	90,045
Total revenues	**18,885,623**	21,594,158
Board designated transfer to endowment	**(315,000)**	(52,821)
Net assets released from restrictions	**2,313**	6,237
Total unrestricted revenues and support	**18,572,936**	21,547,574
Expenses		
Program services		
Men, women, and children's services	**8,399,750**	8,398,916
Partners for Hunger Relief	**3,656,875**	3,611,838
Thrift stores	**2,218,962**	1,885,132
Transitional housing	**1,364,763**	590,919
Recuperative care unit	**895,197**	880,603
Children's center	**258,109**	137,855
Sleepless America	**220**	240
Total program services	**16,793,876**	15,505,503
Support services		
Fundraising and development	**1,731,540**	1,528,231
Management and general	**1,175,167**	965,212
Total supporting services	**2,906,707**	2,493,443
Total program and supporting expenses	**19,700,583**	17,998,946
Special events expenses	**54,348**	2,300
Total expenses	**19,754,931**	18,001,246
(Decrease) increase in net assets - unrestricted	**(1,181,995)**	3,546,328
Changes in net assets - temporarily restricted		
Net assets released from restrictions	**(2,313)**	(6,237)
Decrease in net assets - temporarily restricted	**(2,313)**	(6,237)
Changes in net assets - permanently restricted		
Board designated transfer	**315,000**	52,821
Increase in net assets - permanently restricted	**315,000**	52,821
(Decrease) increase in net assets	**(869,308)**	3,592,912
Net assets at beginning of period	**13,122,560**	9,529,648
Net assets at end of period	$ **12,253,252**	$ 13,122,560

See accompanying notes to the consolidated financial statements

San Diego Rescue Mission
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Change in net assets	$ (869,308)	$ 3,592,912
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	557,849	539,362
Contribution of beneficial interest	7,591	(21,864)
In-kind contribution of inventory, net	(53,429)	(253,599)
Write off loan costs	-	85,235
Loss on disposal/sale of asset	3,733	-
Decrease (increase) in assets:		
Accounts receivable	(21,096)	13,260
Pledges receivable	-	35,000
Prepaid expenses	(11,619)	(20,038)
Other current assets	22,267	(23,672)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	147,058	200,730
Compensated absences	(22,852)	(538)
Deferred revenue	(24,987)	38,630
Interest payable	82,692	92,112
Security deposit	-	(30,923)
Net cash (used in) provided by operating activities	(182,101)	4,246,607
Cash flows from investing activities:		
Net (loss) proceeds from marketable securities	(22)	48,195
Release of debt service reserve deposits	-	694,862
Purchase of property and equipment	(69,937)	(274,846)
Increase in restricted cash	(314,887)	(52,741)
Net cash (used in) provided by investing activities	(384,846)	415,470
Cash flows from financing activities:		
Loan costs capitalized	-	(68,900)
Proceeds from notes payable	-	6,911,285
Principal payments on notes payable	(1,515,066)	(7,327,526)
Principal payments on capital lease obligation	(8,081)	(7,103)
Net cash used in financing activities	(1,523,147)	(492,244)
Net (decrease) increase in cash	(2,090,094)	4,169,833
Cash and cash equivalents - beginning of year	5,875,679	1,705,846
Cash and cash equivalents - end of year	$ 3,785,585	$ 5,875,679
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 313,325	$ 362,153
In-kind contributions:		
Stock	$ 58,756	$ 187,680
Inventory, net	$ 53,429	$ 253,599
Contribution of beneficial interest	$ -	$ 17,747

See accompanying notes to the consolidated financial statements

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 four 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 four 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 though 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 twelve month program. The SDRM graduates participants four times a 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. Residents also have access to therapists and social workers to help them to determine the best course of action for life improvement. Oftentimes this includes entry into the SDRM's long-term recovery Women and Children's Center.

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 children's nursery. Older children participate in a variety of programs, including school support, after-school tutoring and recreation, and individual counseling from specially trained therapists.

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

Men, Women and Children's Services, (continued)

Outpatient Psychotherapy Clinic
The outpatient clinic provides free, quality counseling to individuals, families, children and couples who are homeless, at risk of homelessness or unable to afford therapy. Treatment is provided by licensed Marriage and Family Therapists, or by interns and trainees under their supervision.

Children's Center
The Children's Center is a program of SDRM, formed in fiscal year 2014 and provides licensed childcare to children ages 2-5 for the children of Nueva Vida Haven and Women's and Children's Center of San Diego Rescue Mission. The center provides a child-initiated, play-based curriculum that includes inside and outside activities, teacher-directed and child-directed activities, and restful and active times each weekday.

Transitional Housing
Transitional Housing is a program of SDRM which provides housing for men, women and children and focuses on assisting them with budgeting, interviewing for employment and outside housing applications. It is a stepping stone to offer support for those in the program to become a part of society and to live on their own responsibly.

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 Stores
SDRM operates four thrift stores located in North Park, National City, City Heights, and the Sports Arena areas. 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.

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

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.

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.

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.

Accounts Receivable

Management believes that all accounts receivables are fully collectible, and therefore no allowance for doubtful accounts was recorded as of September 30, 2015 and 2014.

Inventories

Inventories of supplies (included in other current assets) are valued at the lower of cost or market, determined on the first-in, first-out basis.

Inventories of in-kind contributions are valued at thrift store values based on published guidelines for donated goods. Management has applied a fifty percent reserve for obsolescence on the inventory, resulting in a balance of $307,028 and $253,599 in net inventory at September 30, 2015 and 2014, respectively.

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

Land, Buildings and Equipment and Depreciation

Land, buildings and equipment are recorded at cost. The Organization capitalizes items with a value in excess of $5,000 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:

	Years
Building and improvements	5-40
Equipment	5-7
Furniture and fixtures	5-7
Autos and truck	5-7

Depreciation expense totaled $555,110 and $534,769 for the years ended September 30, 2015 and 2014, 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 were no impairment losses recognized in 2015 or 2014.

Loan Costs and Amortization

Loan costs totaling $59,714 and $64,307 net of accumulated amortization of $9,186 and $4,593 at September 30, 2015 and 2014, respectively, are amortized over a 15-year period using a straight-line method. Amortization totaled $4,593 for both years ended September 30, 2015 and 2014.

Deferred Rent

Rent expense for operating leases, which may have fixed escalating rentals over the life of the lease and free rent periods, is recorded on a straight-line basis over the initial lease term. The difference between rent expense and rent paid is recorded as deferred rent and is classified as long-term at September 30, 2015.

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

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 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.

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 an unconditional promise to give to the Organization. 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 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 2015 and 2014. The valuation of contributed time is not reflected in these statements since they do not require specialized skills.

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

Contributed Services, Materials, Clothing and Food, (continued)

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

	2015	2014
Revenue:		
Donated food	$ 7,999,489	$ 7,603,826
Thrift stores	2,231,858	2,028,378
Total revenue	$ 10,231,347	$ 9,632,204
Expenses:		
Food services	$ 7,999,489	$ 7,603,826
Distribution center	2,178,429	1,774,775
Total expenses	$ 10,177,918	$ 9,378,601

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.

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.

The Organization uses a loss contingencies approach for evaluating uncertain tax positions and continually evaluates changes in tax law and new authoritative rulings. No loss contingencies were recognized for the years ended September 30, 2015 or 2014.

The Organization's federal exempt organization returns for tax years 2011 and beyond remain subject to examination by the Internal Revenue Service. The Organization's exempt organization returns of the tax years 2010 and beyond remain subject to examination by the Franchise Tax Board.

The Organization did not have unrecognized tax benefits as of September 30, 2015 or 2014 and does not expect this to change significantly over the next 12 months. The Organization recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of September 30, 2015 and 2014, 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. 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.

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

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.

Recent Authoritative Guidance
In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*: Topic 606. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard for U.S GAAP and International Financial Reporting Standards that removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issued, improves comparability of revenue recognition practices across entities, industries, jurisdiction, and capital markets, provide more useful information to users of financial statement through improved disclosure requirements, simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance is effective for annual reporting periods beginning after December 15, 2018. The Organization intends to adopt this guidance at the beginning of its fiscal year ending September 30, 2020 and is currently evaluating the impact on its financial statements and disclosures.

Proposed Amendments to Current Accounting Standards - The FASB is currently working on amendments to existing accounting standards governing a number of areas including, but not limited to, lease accounting.

In August 2010, the FASB issued an exposure draft, *Leases*, which would result in significant changes to the accounting requirements for both lessees and lessors in ASC Topic 840, *Leases*. In May 2013, the FASB re-exposed this draft and the comment period ended in September 2013. As the standard-setting process is still ongoing, the Organization is unable to determine the impact this proposed change in accounting will have in the Organization's financial statements at this time.

NOTE 2 – INVESTMENTS IN MARKETABLE SECURITIES

Investments in marketable securities are stated at fair value and consist of open-ended mutual funds at September 30, 2015 and 2014.

NOTE 3 – LAND, BUILDINGS AND EQUIPMENT

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

	2015	2014
Land	$ 5,886,842	$ 5,886,842
Building and improvements	17,311,741	17,311,741
Equipment	119,763	82,624
Furniture and fixtures	298,287	285,303
Autos and trucks	167,960	191,556
Equipment under capital lease	36,500	36,500
Software	139,721	119,908
	23,960,814	23,914,474
Less: accumulated depreciation and amortization	(6,408,919)	(5,873,673)
	$ 17,551,895	$ 18,040,801

NOTE 4 – 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% or 3.75% at September 30, 2015. The outstanding balances were $0 at September 30, 2015 and 2014. The line-of-credit is secured by a commercial security agreement. Interest expense was $0 for the years ended September 30, 2015 and 2014.

NOTE 5– NOTES PAYABLE

Notes payable consist of the following at September 30:

	2015	2014
Note payable to Bank of the West dated October 11, 2013 in the original amount of $6,827,000 bears interest at 4.5% per annum and is secured by a deed of trust. Principal and interest are payable in monthly installments of $30,295 and one last payment estimated at $2,944,637 will be due on September 30, 2028. Accrued interest payable totaled $0 at September 30, 2015.	$ 5,171,852	$ 6,666,948
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 $801,374 and $718,682 at September 30, 2015 and 2014 respectively.	2,000,000	2,000,000
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.	1,000,000	1,000,000
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 (see Note 9).	402,368	402,368
Loan payable to San Diego Gas & Electric, dated May 22, 2014 in the original amount of $84,285. This loan is noninterest bearing as a part of On Bill Financing Loan Agreement and principal is payable in 52 monthly installments of $1,620.86.	62,694	82,664
Total notes payable	8,636,914	10,151,980
Less: current portion	(149,126)	(177,182)
	$ 8,487,788	$ 9,974,798

NOTE 5 – NOTES PAYABLE (CONTINUED)

Interest expense was $394,245 and $409,499 for the years ended September 30, 2015 and 2014, respectively. As of September 30, 2015, 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,		
2016	$	149,126
2017		155,827
2018		162,181
2019		153,724
2020		155,755
Thereafter		7,860,301
	$	8,636,914

NOTE 6 – 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, 2015.

NOTE 6 – 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, 2015 and 2014:

	2015	2014
Unrestricted:		
Undesignated	$ 11,851,891	$ 13,033,886
Temporarily restricted:		
Children's Activity Fund	2,041	4,241
Earnings from endowment	2,205	2,318
	4,246	6,559
Permanently restricted:		
Endowment fund	397,115	82,115
Total net assets	$ 12,253,252	$ 13,122,560

NOTE 7 – LEASE AGREEMENTS

Facility and Equipment Leases

The Organization leases commercial space for the thrift stores in National City and Point Loma. The term of the National City lease is from June 1, 2013 to May 31, 2018. The term of the Point Loma lease is from February 1, 2014 to May 31, 2019. Rent expense under the commercial leases totaled $271,075 and $212,639 for the years ended September 30, 2015 and 2014, respectively.

The Organization has entered into various noncancellable operating equipment leases.

Future minimum rental payments under the leases are as follows:

Year Ending September 30,	Equipment leases	Facility leases	Total minimum lease payments
2016	$ 119,541	$ 236,432	$ 355,973
2017	91,172	240,412	331,584
2018	86,187	209,924	296,111
2019	70,105	95,691	165,796
2020	9,857	-	9,857
Thereafter	-	-	-
	$ 376,862	$ 782,459	$ 1,159,321

NOTE 7 – LEASE AGREEMENTS (CONTINUED)

Capital leases

Equipment under capital lease consists of office equipment with a capitalized cost of $36,500. The assets and liabilities under the capital lease are recorded at the lower of present value of the minimum lease payment or the fair value of the asset. The asset is amortized over its estimated productive life. Amortization of assets under capital leases was $7,300 for the year ended September 30, 2015 and 2014 and is included in depreciation and amortization expense. Interest on the capital lease was $1,772 and $2,751 for the years ended September 30, 2015 and 2014, respectively. Future minimum lease payments total $9,854 in fiscal year ending September 30, 2016 of which approximately $659 represents interest.

Rental Income

The Organization owns the building located at 120 Elm Street and 1840 First Avenue, San Diego, California and leases space to others in these buildings under month-to-month operating leases and term leases which expire on various dates through December 2016. The leases include payments for tenant improvements, and payment for common area maintenance.

Rental income under lease agreements totaled $209,066 and $283,968 for the years ended September 30, 2015 and 2014, respectively.

The related future minimum lease income for the year ended September 30, 2016 and 2017 is $94,920 and $22,440, respectively.

NOTE 8 – 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, 2015 and 2014.

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, 2015 and 2014.

NOTE 9 – SUBSEQUENT EVENTS

Effective October 9, 2015, the San Diego Housing Commission approved the repayment of the $402,368 recourse promissory note (Note 5) with the Organization by accepting $329,210 as repayment and the forgiveness of $73,158. On October 23, 2015, the $329,210 was paid by Organization to the San Diego Housing Commission in satisfaction of the $402,368 note payable.

In December 2015, the Organization entered into a non-cancelable operating lease agreement for approximately 7,251 square feet of office space at 111 Elm Street in San Diego. The lease term begins March 1, 2016 and ends July 31, 2026, with the option to renew for one five year period. The terms include monthly base rent of $11,602 with annual increases and five months of free rent abatement.

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 9, 2016, the date the consolidated financial statements were available to be issued, and determined that no other subsequent events have occurred that would require recognition on the consolidated financial statements or disclosure in the notes thereto.

SUPPLEMENTAL SCHEDULES

San Diego Rescue Mission
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2015

	Program Services								Supporting Services			
	Men, Women and Children's Services	Partners for Hunger Relief	Thrift Stores	Transitional Housing	Recuperative Care Unit	Children's Center	Sleepless America	Total Program Services	Fundraising	Management and General	Total Supporting Services	2015 Total
Salaries and wages	$ 1,221,915	$ 158,108	$ 345,408	$ 360,466	$ 285,808	$ 120,667	$ -	$ 2,492,372	$ 327,743	$ 662,618	$ 990,361	$ 3,482,733
Employee benefits	156,996	9,175	32,612	39,352	34,154	10,238	-	282,528	19,536	96,753	116,289	398,817
Payroll tax expense	114,731	13,600	34,984	36,902	27,104	11,181	-	238,503	27,119	41,068	68,187	306,690
Donated food and materials	4,557,614	3,474,307	1,089,214	616,705	319,160	77,349	-	10,134,349	-	43,569	43,569	10,177,918
Fundraising	-	-	-	-	-	-	220	220	1,303,903	-	1,303,903	1,304,123
Utilities	-	22,335	56,730	-	-	-	-	79,064	-	-	-	79,064
Rent	-	-	276,411	-	-	-	-	276,411	-	-	-	276,411
Outside services	39,214	6,230	-	73	11,072	259	-	56,848	-	5,233	5,233	62,081
Auto expense	-	117,576	-	-	-	-	-	117,576	-	-	-	117,576
Supplies	9,019	10,901	15,157	4,748	3,096	799	-	43,720	2,056	9,953	12,009	55,730
Food	-	2,904	-	-	-	-	-	2,904	-	-	-	2,904
Repairs and maintenance	-	-	30,484	-	-	-	-	30,484	-	-	-	30,484
Insurance	-	-	-	-	-	-	-	-	-	-	-	-
Public relations	-	-	8,666	-	-	-	-	8,666	36,224	-	36,224	44,890
Communications	-	-	20,809	-	-	-	-	20,809	-	-	-	20,809
Equipment rental	-	3,610	-	-	-	-	-	3,610	-	-	-	3,610
Professional fees	-	-	-	-	-	-	-	-	-	92,308	92,308	92,308
Permit/license	63,547	1,116	173	70	-	339	-	65,245	-	3,300	3,300	68,545
Bank fees	-	-	22,826	-	-	-	-	22,826	-	23,873	23,873	46,699
Client services	29,774	-	-	1,205	3,369	1,443	-	35,791	-	-	-	35,791
Postage	-	-	1,991	-	-	-	-	1,991	4,340	2,795	7,135	9,126
Dues and subscriptions	687	-	-	-	-	-	-	687	1,882	17,097	18,979	19,666
Meal, travel, and entertainment	1,695	904	-	159	-	-	-	2,758	8,737	13,295	22,032	24,790
Other	-	-	342	-	-	-	-	342	-	62,029	62,029	62,371
Security	-	-	1,545	-	-	-	-	1,545	-	-	-	1,545
Depreciation	369,157	-	5,128	51,597	39,895	5,851	-	471,628	-	22,873	22,873	494,501
Amortization	-	-	-	-	-	-	-	-	-	-	-	-
Interest	273,606	-	-	38,242	29,568	4,337	-	345,752	-	18,725	18,725	364,477
Loan fees	-	-	-	-	-	-	-	-	-	-	-	-
Facilities allocated costs	784,696	-	-	109,677	84,801	12,438	-	991,612	-	48,620	48,620	1,040,231
Distribution center allocated costs	192,431	-	276,482	27,095	20,460	3,318	-	519,786	-	11,059	11,059	530,845
Food services allocated costs	584,667	(163,892)	-	78,473	36,709	9,891	-	545,848	-	-	-	545,848
Total program and supporting services expenses	$ 8,399,750	$ 3,656,875	$ 2,218,962	$ 1,364,763	$ 895,197	$ 258,109	$ 220	$ 16,793,876	$ 1,731,540	$ 1,175,167	$ 2,906,707	$ 19,700,583

San Diego Rescue Mission
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2014

	Program Services								Supporting Services			
	Men, Women and Children's Services	Partners for Hunger Relief	Thrift Stores	Transitional Housing	Recuperative Care Unit	Children's Center	Sleepless America	Total Program Services	Fundraising	Management and General	Total Supporting Services	2014 Total
Salaries and wages	$ 1,201,748	$ 135,235	$ 259,363	$ 124,567	$ 277,939	$ 55,798	$ -	$ 2,054,650	$ 270,020	$ 517,353	$ 787,373	$ 2,842,023
Employee benefits	138,648	7,154	30,485	9,794	27,989	1,957	-	216,027	23,853	87,603	111,456	327,483
Payroll tax expense	110,133	13,658	27,780	12,212	26,205	5,085	-	195,073	23,297	36,307	59,604	254,677
Donated food and materials	4,548,565	3,417,988	887,389	166,228	312,286	10,649	-	9,343,105	-	35,496	35,496	9,378,601
Fundraising	-	-	-	-	-	-	240	240	1,167,770	-	1,167,770	1,168,010
Utilities	-	19,913	35,569	-	-	-	-	55,482	-	-	-	55,482
Rent	-	-	216,119	-	-	-	-	216,119	-	-	-	216,119
Outside services	21,994	3,904	-	790	9,823	456	-	36,967	-	11,835	11,835	48,802
Auto expense	-	137,711	-	-	-	-	-	137,711	-	-	-	137,711
Supplies	13,721	9,789	20,592	29,341	1,455	5,011	-	79,909	1,240	9,512	10,752	90,661
Food	-	1,466	-	-	-	-	-	1,466	-	-	-	1,466
Repairs and maintenance	-	-	31,773	-	-	-	-	31,773	-	-	-	31,773
Insurance	-	-	-	-	-	-	-	-	-	-	-	-
Public relations	-	-	11,546	-	-	-	-	11,546	31,284	-	31,284	42,830
Communications	-	-	15,985	-	-	-	-	15,985	-	-	-	15,985
Equipment rental	-	-	-	-	-	-	-	-	-	-	-	-
Professional fees	-	-	-	-	-	-	-	-	-	99,005	99,005	99,005
Permit/license	5,000	270	827	-	-	31,689	-	37,786	-	6,008	6,008	43,794
Bank fees	-	-	24,322	-	-	-	-	24,322	-	20,606	20,606	44,928
Client services	38,862	-	-	120	3,419	323	-	42,724	-	-	-	42,724
Postage	-	-	3,948	-	-	-	-	3,948	619	2,160	2,779	6,727
Dues and subscriptions	392	-	-	-	-	-	-	392	2,682	13,944	16,626	17,018
Meal, travel, and entertainment	1,673	517	-	-	223	-	-	2,413	7,466	15,467	22,933	25,346
Other	-	-	189	-	-	-	-	189	-	6,668	6,668	6,857
Security	-	-	18,980	-	-	-	-	18,980	-	-	-	18,980
Depreciation	348,038	-	6,879	48,645	37,612	5,516	-	446,690	-	21,564	21,564	468,254
Amortization	-	-	-	-	-	-	-	-	-	-	-	-
Interest	269,004	-	24,637	37,598	29,071	4,264	-	364,574	-	16,667	16,667	381,241
Loan fees	155,167	-	-	21,688	16,769	2,459	-	196,083	-	9,614	9,614	205,697
Facilities allocated costs	720,676	-	-	100,729	77,883	11,423	-	910,711	-	44,653	44,653	955,364
Distribution center allocated costs	187,050	-	268,749	26,337	19,887	3,225	-	505,248	-	10,750	10,750	515,998
Food services allocated costs	638,245	(135,767)	-	12,870	40,042	-	-	555,390	-	-	-	555,390
Total program and supporting services expenses	$ 8,398,916	$ 3,611,838	$ 1,885,132	$ 590,919	$ 880,603	$ 137,855	$ 240	$ 15,505,503	$ 1,528,231	$ 965,212	$ 2,493,443	$ 17,998,946