San Diego Rescue Mission
Consolidated Financial Statements

September 30, 2019 and 2018

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 financial statements of the San Diego Rescue Mission, a nonprofit organization, (the "Organization") which comprise the consolidated statements of financial position as of September 30, 2019 and 2018, and the related consolidated statements of activities, cash flows, and functional expenses 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, 2019 and 2018, and the changes in its net assets, its cash flows, and its functional expenses for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Swenson Advisors, LLP

SWENSON ADVISORS, LLP
San Diego, California
December 19, 2019

San Diego Rescue Mission
Consolidated Statements of Financial Position
September 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	**$ 548,207**	$ 381,989
Investments in marketable securities	**1,440,249**	1,645,931
Accounts receivable	**7,663**	103,208
Prepaid expenses	**515,335**	228,614
Other current assets	**17,865**	13,764
Inventory, net	**192,036**	259,096
	2,721,355	2,632,602
Property and equipment, net	**16,343,698**	16,796,641
Other assets		
Loan cost, net	**41,342**	45,935
Endowment investments	**-**	458,274
Scholarship fund	**83,018**	-
Construction in progress	**30,543**	-
Other long-term assets	**42,179**	49,013
	197,082	553,222
Total assets	**$ 19,262,135**	$ 19,982,465
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 497,891**	$ 315,677
Compensated absences	**123,070**	162,428
Deferred revenue	**-**	84,983
Deposits	**6,480**	6,990
Current portion of capital lease obligations	**73,423**	69,201
Current portion of notes payable	**155,755**	151,001
	856,619	790,280
Long-term liabilities		
Notes payable	**6,458,230**	7,613,905
Interest payable	**1,158,067**	1,064,847
Deferred rent	**98,948**	89,971
Capital lease obligations	**377,193**	450,616
	8,092,438	9,219,339
Total liabilities	**8,949,057**	10,009,619
Commitments (Note 10)	**-**	-
Net assets		
Net assets without donor restrictions	**10,196,325**	9,514,572
Net assets with donor restrictions	**116,753**	458,274
Total net assets	**10,313,078**	9,972,846
Total liabilities and net assets	**$ 19,262,135**	$ 19,982,465

See accompanying notes to the consolidated financial statements

San Diego Rescue Mission
Consolidated Statements of Activities
For the Years Ended September 30, 2019 and 2018

	2019	2018
Changes in net assets without donor restrictions		
Revenues and support		
Donated food	$ **6,660,952**	$ 7,762,811
Contributions	**8,176,410**	6,947,479
Donated material	**1,976,878**	2,166,417
Thrift stores	**1,155,611**	1,185,825
Grants and contracts	**296,823**	259,595
Rental income	**198,106**	196,236
Recuperative care unit	**67,080**	352,270
Program fees	**125,245**	120,466
Special events	**53,685**	1,861
Vehicle donation sales and gain on sales of fixed assets	**73,975**	55,275
Miscellaneous income	**210,825**	73,921
Total revenues without donor restrictions	**18,995,590**	19,122,156
Net assets released from restrictions	**470,467**	10,282
Total revenues and support without donor restrictions	**19,466,057**	19,132,438
Expenses		
Program services		
Men, women, and children's services	**8,204,350**	8,329,288
Partners for Hunger Relief	**2,868,105**	3,539,382
Thrift stores	**1,964,521**	2,150,648
Transitional housing	**1,731,801**	1,678,540
Recuperative care unit	**278,636**	831,462
Children's center	**576,486**	507,420
Total program services	**15,623,899**	17,036,740
Support services		
Fundraising and development	**1,977,442**	1,701,578
Management and general	**1,015,481**	1,108,209
Total supporting services	**2,992,923**	2,809,787
Total program and supporting expenses	**18,616,822**	19,846,527
Special events expenses	**167,482**	-
Total expenses	**18,784,304**	19,846,527
Increase (decrease) in net assets without donor restrictions	**681,753**	(714,089)
Changes in net assets with donor restrictions		
Contributions	**116,753**	-
Investment income	**12,193**	18,869
Net assets released from restrictions	**(470,467)**	(10,282)
(Decrease) increase in net assets with donor restrictions	**(341,521)**	8,587
Increase (decrease) in net assets	**340,232**	(705,502)
Net assets at beginning of period	**9,972,846**	10,678,348
Net assets at end of period	$ **10,313,078**	$ 9,972,846

See accompanying notes to the consolidated financial statements

San Diego Rescue Mission
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ **340,232**	$ (705,502)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**647,426**	603,624
Beneficial interest in charitable gift annuity	**12,502**	4,269
In-kind contribution of inventory, net	**67,060**	(20,208)
Net unrealized and realized gains on investments	**(59,366)**	(69,459)
Net unrealized and realized gains on scholarship fund	**(8,018)**	-
Net unrealized and realized gains on endowment	**(12,193)**	(18,869)
Transfer from investment account to operations	**600,000**	-
Transfer from endowment fund to operations	**147,000**	-
Decrease (increase) in assets:		
Accounts receivable	**95,545**	135,461
Prepaid expenses	**(286,721)**	(81,293)
Other current assets	**(4,101)**	(5,586)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	**182,214**	52,080
Compensated absences	**(39,358)**	14,658
Deferred revenue	**(84,983)**	84,839
Deposits	**(6,178)**	720
Interest payable	**93,220**	90,469
Deferred rent	**8,977**	7,532
Net cash provided by operating activities	**1,693,258**	92,735
Cash flows from investing activities:		
Investment in marketable securities	**(11,485)**	(10,947)
Investment in scholarship fund	**(75,000)**	-
Construction in progress	**(30,543)**	-
Purchase of property and equipment	**(189,890)**	(93,911)
Net cash used in investing activities	**(306,918)**	(104,858)
Cash flows from financing activities:		
Principal payments on notes payable	**(150,921)**	(163,692)
Forgiveness of debt (Note 8)	**(1,000,000)**	-
Principal payments on capital lease obligation	**(69,201)**	(26,761)
Net cash used in financing activities	**(1,220,122)**	(190,453)
Net increase (decrease) in cash	**166,218**	(202,576)
Cash and cash equivalents - beginning of year	**381,989**	584,565
Cash and cash equivalents - end of year	$ **548,207**	$ 381,989
Supplemental disclosures of cash flow information:		
Acquisition of equipment under capital lease	$ **-**	$ 436,468
Cash paid during the year for interest	$ **262,271**	$ 212,277
In-kind contributions:		
Stock	$ **47,053**	$ 68,015

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" or the "Mission") 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 distributing donated materials.

Sleepless America (Dissolved March 2019)

Sleepless America, a nonprofit organization formed in 2009, was a national outreach initiative operating in San Diego, California to build awareness, raise funds, and activate public involvement with homeless solutions across the country. It used education, cause-related marketing, and various media and promotional events to facilitate its goals. Sleepless America planned to grant host agencies in local communities the rights to use its concept and intellectual property through annual licensing agreements. Sleepless America discontinued its operations effective March 2019. The accounts from October 2018 through March 2019 are consolidated with the San Diego Rescue Mission, Inc. for the year ended September 30, 2019.

The following is a list of descriptions 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. This often includes entry into the SDRM's long-term recovery Women and Children's Center.

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

Men, Women and Children's Services, Continued

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, the 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.

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 that was 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 thrift stores located in North Park, National City (closed in May 2018), 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.

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

Recuperative Care Unit

The Recuperative Care Unit ("RCU") program addressed the critical need of housing supportive services for homeless individuals requiring post-hospital medical attention. The RCU offered 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 individual needs. The program was partially supported by revenue generated from agreements with hospitals to provide post-hospital recuperative care for specific individuals. The program also helped patients establish eligibility for public benefits and works to secure them long-term housing.

After analyzing the financial success and operational effectiveness of the RCU, taking into consideration the decrease of client referrals from hospitals, the Organization's board of directors approved of discontinuing the program, effective January 31, 2019.

Sleepless America (Dissolved March 2019)

Sleepless America is the organizational structure SDRM used to manage and execute the local Sleepless programs for its benefit. The educational materials, events and promotional activities provided 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 were operated by Sleepless America. Since SDRM owns Sleepless America, there is no licenses fee arrangement. After the dissolution of Sleepless America in March 2019, SDRM took over the operations of the event activities of Sleepless San Diego.

SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The consolidated financial statements have been prepared using the accrual basis of accounting 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.

Net Assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported in the following two classes:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations, including those resources currently available for use in the Organization's operations and those designated by the board for specific future uses.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations which have not yet been met, including those that have been restricted in perpetuity, such that they are maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. 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, 2019 and 2018.

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 $192,036 and $259,096 in net inventory at September 30, 2019 and 2018, respectively.

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 support without donor restrictions unless the donor has restricted the donated asset for 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 net assets with donor restrictions to net assets without donor restrictions at that time. Assets under construction are not depreciated until placed into service. 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

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.

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

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 2019 or 2018.

Loan Costs and Amortization

Loan costs totaling $41,342 and $45,935 net of accumulated amortization of $27,558 and $22,965 at September 30, 2019 and 2018, respectively, are amortized over a 15-year period using a straight-line method. Amortization totaled $4,593 for both years ended September 30, 2019 and 2018.

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, 2019 as the liability is not expected to settle in the coming year.

Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, accounts receivable, investments 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 notes payable approximate fair market value based on the current rates offered to the Company for debt with similar terms or maturities. The investments in marketable securities are 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 statements of financial position include investments 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.

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

Revenue Recognition

When monies or other assets are received, the Organization classifies the transaction as either a contribution (i.e. a nonreciprocal transaction) or an exchange (i.e. a reciprocal transaction).

Contributed Revenue – In accordance with Accounting Standards Update ("ASU") No. 2016-14, *Not for Profit (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"), when a transaction is determined to be a contribution, the Organization then determines whether it is conditional or unconditional. Conditional contributions contain a donor-imposed condition that represents a barrier that must be overcome before being recognized as a net asset. Unconditional contributions are those that are absent of any indication that the Organization must overcome a barrier and are classified as either net assets with donor restrictions or net assets without donor restrictions and are recorded in accordance with the guidelines outlined in Subtopic 958-605, *Not-for-Profit Entities – Revenue Recognition*. Unconditional contributions are recognized when the donor makes a promise to give to the Organization. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. 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 restrictions that are met in the same reporting period as received are reported as unrestricted support and increase net assets without donor restrictions.

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

Donated property and equipment are recorded at fair market value at the date of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

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 2019 and 2018. 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)

Revenue Recognition, Continued

Contributed Revenue, Continued

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

	2019	2018
Revenue:		
Donated food	**$ 6,660,952**	$ 7,762,811
Donated material	**1,976,878**	2,166,417
Total revenue	**$ 8,637,830**	$ 9,929,228
Expenses:		
Food services	**$ 6,660,952**	$ 7,762,811
Distribution center	**2,043,939**	2,146,209
Depreciation	**10,270**	20,532
Total expenses	**$ 8,715,161**	$ 9,929,552

Exchange Transactions – The Organization accounts for exchange transactions in accordance with ASU No. 2014-09 (ASC Topic 606), *Revenue from Contracts with Customers* ("Topic 606"). See Note 2 for further details on the Organization's adoption of Topic 606, effective October 1, 2018.

Special event revenues are recognized when the event is presented. Ticket sales for admission to the events that have been received as of September 30 for which the performance obligations are not yet complete are recorded as deferred revenues in the statement of financial position. These transactions are recognized in accordance with Topic 606 (see Note 2).

The Organization also earns income from its thrift stores. Revenue is recognized at a point in time when the sale of an item occurs. As such, there were no incomplete performance obligations as of September 30, 2019 and 2018. These transactions are recognized in accordance with Topic 606 (see Note 2).

The Organization earns income from program fee revenue for Men, Women and Children's Services and Transitional Housing. Clients pay monthly rent which is calculated on a sliding scale based on the clients' salary. Revenue is recognized on the first day of the month when the period for which rent is received begins. As such, there were no incomplete performance obligations as of September 30, 2019. These transactions are recognized in accordance with Topic 606 (see Note 2).

Until the Organization discontinued the operations of the RCU on January 31, 2019, the Organization received fees from hospitals based on negotiated contract terms for providing patients with post-hospital care and medical attention. Since the RCU discontinued operations in January 2019, there were no incomplete performance obligations as of September 30, 2019. These transactions are recognized in accordance with Topic 606 (see Note 2).

Rental income is recognized on a monthly basis in accordance with the lease agreements. The difference between recognizing actual rents received and recognizing rental income using the straight-line method under which contractual rent increases are recognized equally over the lease term are immaterial for financial statement presentation purposes. Rental income for lease contracts is recognized in accordance with ASC 840: *Leases* (Note 10).

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

Revenue Recognition, Continued

Exchange Transactions, Continued

The Mission maintains investments in marketable securities, an endowment fund (which was released from donor restrictions in January 2019 and is classified with cash and cash equivalents as of September 30, 2019), and a scholarship fund. The Organization recognizes investment returns based on the fair value of the funds, which are classified as without donor restrictions in the statement of activities for the marketable securities and the endowment fund (Notes 3 and 4), and are classified as with donor restrictions in the statement of activities for the scholarship fund (Note 5).

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. See appendix A for the consolidated statements of functional expenses for the years ended December 31, 2019 and 2018.

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, 2019 or 2018.

The Organization's federal exempt organization returns for tax years 2015 and beyond remain subject to examination by the Internal Revenue Service. The Organization's exempt organization returns of the tax years 2014 and beyond remain subject to examination by the Franchise Tax Board.

The Organization did not have unrecognized tax benefits as of September 30, 2019 or 2018 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, 2019 and 2018, 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.

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.

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

Reclassifications

Certain reclassifications have been made to the prior year financial statement presentation to correspond to the current year's format. These reclassifications were not material and total assets, total liabilities, net assets and changes in net assets are unchanged due to these reclassifications.

Recent Authoritative Guidance, Adopted

In August 2016, the FASB issued ASU 2016-14, *Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). The Organization adopted the provisions of this standard effective October 1, 2018. This new guidance improves the prior net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. In addition to the changes in terminology used to categorize net assets, new disclosures were added regarding liquidity and the availability of resources (Note 13).

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("Topic 606"). Topic 606 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and requires entities to recognize revenues when control of the promised goods or services is transferred to customers at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The updated guidance is effective for annual periods beginning after December 15, 2018, and early adoption is permitted. As part of adopting ASU 2016-14, the Organization early adopted Topic 606 as of October 1, 2018 to account for exchange transactions to which Topic 606 is applicable. The guidance in Topic 606 regarding contracts with customers does not apply to lease contracts within the scope of ASC Topic 840/842. As such, there is no required change to the recognition of revenue from long-term rental income in relation to Topic 606. See Note 2 for the application of Topic 606 to special event income, program fee revenue, and thrift store transactions.

Recent Authoritative Guidance, Not yet adopted

In February 2016, the FASB issued new lease accounting guidance in ASU No. 2016-02, *Leases* ("Topic 842"). This new guidance was initiated as a joint project with the IASB to simplify lease accounting and improve the quality of and comparability of financial information for users. This new guidance would eliminate the concept of off-balance sheet treatment for "operating leases" for lessees for the vast majority of lease contracts. Under Topic 842, at inception, a lessee must classify all leases with a term of over one year as either finance or operating, with both classifications resulting in the recognition of a defined "right-of-use" asset and a lease liability on the balance sheet. However, recognition in the income statement will differ depending on the lease classification, with finance leases recognizing the amortization of the right-of-use asset separate from the interest on the lease liability and operating leases recognizing a single total lease expense. Lessor accounting under ASU No. 2016-02 would be substantially unchanged from the previous lease requirements under U.S. GAAP. ASU No. 2016-02 will take effect for nonpublic and nonprofit companies in fiscal years beginning after December 15, 2020. Early adoption is permitted and for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, lessees and lessors must apply a modified retrospective transition approach. The Organization is evaluating ASU No. 2016-02 and its effect on the presentation of its financial statements.

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

Recent Authoritative Guidance, Not yet adopted, Continued

In June 2018, the FASB issued ASU 2018-08, *Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). This new guidance was in response to diversity among not-for-profit entities with characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and with distinguishing between conditional and unconditional contributions. The amendments in this ASU provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction by clarifying how a not-for-profit organization determines whether a resource provider is participating in an exchange transaction. The ASU also clarifies how to evaluate whether contributions are conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. ASU 2018-08 will take effect for organizations in fiscal years beginning after December 15, 2018. Early adoption is permitted. The Organization is evaluating ASU 2018-08 and its effect on the presentation of its financial statements.

NOTE 2 – REVENUE RECOGNITION AND THE ADOPTION OF ASC TOPIC 606, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

Adoption of ASC Topic 606, *Revenue from Contracts with Customers*

On October 1, 2018, the Organization adopted Topic 606, *Revenue from Contracts with Customers*, using the modified retrospective method, indicating that prior periods are not restated to reflect the cumulative effect of the standard. The Organization's exchange transaction classes do not contain variable consideration. Topic 606 requires entities to apply a single method of measuring the progress of satisfying a performance obligation consistently to all similar performance obligations. The Organization satisfies this requirement by recognizing revenues based on the applicable revenue source set forth above. Material performance obligations that were incomplete at the date of initial application and as of September 30, 2019 are recorded as deferred revenue in the statement of financial position. After a thorough analysis, the Organization determined that applying Topic 606 will not change its accounting treatment of recognizing revenue from exchange transactions. As such, there was no effect on the current year's changes in net assets. Additionally, the Organization has determined that the revenue sources have already been appropriately disaggregated in the statement of operations based on obligations that are substantially the same and have the same pattern of transfer to the end customer. As such, the Organization has not disaggregated revenue differently than the revenue sources previously depicted in the statement of operations.

Revenue Recognition

The Organization receives monthly fees from clients in Transitional Housing, the Men's Center, and the Women and Children's Center. The agreements made between the Organization and its clients are the identified contracts, which specify the amount of fees the clients will pay the Organization based on the related program. The Transitional Housing program utilizes a sliding scale that calculates monthly rent using the clients' salaries and other factors, depending on the program. The Mission's performance obligations for these agreements are to provide the clients with various resources based on the specific program as listed in the descriptions of the Organization's programs in Note 1, including housing, meals, practical skills classes, various forms of therapy, support groups, Bible study classes, and employment preparation training. Since program fee revenue is recorded on the first of the month for services to be provided throughout that month, there are no incomplete performance obligations as of September 30. Program fee revenue amounted to $125,245 and $120,466 for the years ended September 30, 2019 and 2018, respectively. Deferred revenue for program fees was $0 as of September 30, 2019 and 2018.

NOTE 2 – REVENUE RECOGNITION AND THE ADOPTION OF ASC TOPIC 606, *REVENUE FROM CONTRACTS WITH CUSTOMERS*, (CONTINUED)

Revenue Recognition, Continued

Ticket sales for admission into events are the identified contracts between the Organization and its special event customers and sponsors, which specify the transaction price for admission. The Organization's performance obligation for these tickets is to provide customers and sponsors with access to the events. Special events revenue is recognized at the point in time that the event takes place. Tickets that have been purchased as of September 30 for which events have not yet taken place are recorded as deferred revenues in the statement of financial position. Special event revenue amounted to $53,685 and $1,861 for the years ended September 30, 2019 and 2018, respectively. Deferred revenue for special events were $0 and $84,983 as of September 30, 2019 and 2018, respectively.

Before the RCU was discontinued in January 2019, the Organization negotiated agreements with hospitals to provide patients with post-hospital care and medical attention. These negotiated agreements were the identified contracts between the Mission and the hospitals, which specified the fees to be received for care of patients referred to the Organization by the hospitals. The Mission's performance obligation for these contracts was to provide patients with a safe and supportive environment, meals, oversight of medical treatment, and follow-up treatment for around 1 – 14 days. RCU revenue was recognized for the period of time that the Mission was treating the patient, which was not for a period of longer than a few weeks. Due to the discontinuation of the RCU program, there were no incomplete performance obligations as of September 30, 2019. RCU revenue amounted to $67,080 and $352,270 for the years ended September 30, 2019 and 2018, respectively. Deferred revenue for RCU was $0 as of September 30, 2019 and 2018.

The Mission sells donated merchandise at its thrift store locations. The Organization recognizes sales revenue at the time it sells merchandise to the customer, based on the price stated on each item for sale. Revenue generated from the thrift stores amounted to $1,155,611 and $1,185,825 for the years ended September 30, 2019 and 2018, respectively.

NOTE 3 – INVESTMENTS IN MARKETABLE SECURITIES

Investments in marketable securities are stated at fair value and consist of $1,041,885 in open-ended mutual funds and $74,896 in ETF's and CEF's at September 30, 2019 and of $1,373,784 in open-ended mutual funds and $272,147 in ETF's and CEF's at September 30, 2018. The following schedule summarizes the investment return and is classified as net assets without donor restrictions in the statement of activities for the years ended September 30, 2019 and 2018.

	2019	2018
Interest and dividend income	**$ 28**	$ 28
Realized and unrealized gains	**59,366**	69,459
	$ 59,394	$ 69,487

NOTE 4 – ENDOWMENT INVESTMENTS

The endowment investments were released from restriction and presented with investments in marketable securities in the statement of financial position as of September 30, 2019 (Note 9). As of September 30, 2019, the formerly known endowment investments are now classified as capital project funds. Prior to the release from restrictions, the endowment investments were classified as long-term assets and were presented as endowment investments in the statement of financial position as of September 30, 2018. The accounts are stated at fair value and consist of the following at September 30:

	2019	2018
Money Market Fund	$ 5,432	$ 3,610
ETFs & CEFs	21,123	75,983
Mutual Funds	296,912	378,680
	$ 323,467	$ 458,273

The following schedule summarizes the investment return for the years ended September 30, 2019 and 2018. The gain on endowment investment was released from donor restrictions in 2019 and thus is classified as net assets without donor restrictions in the statement of activities for the year ended September 30, 2019.

	2019	2018
Realized and unrealized gains	$ 12,193	$ 18,869
	$ 12,193	$ 18,869

NOTE 5 – BARBARA LEE SCHOLARSHIP FUND

In December 2018, the Organization received a donation of $75,000 from a related party to be invested as a scholarship fund, which is stated at fair value; is classified as net assets with donor restriction in the statement of activities for the year ended September 30, 2019; and consists of the following as of September 30, 2019:

	2019
Money Market Fund	$ 3,896
ETFs & CEFs	5,422
Mutual Funds	73,700
	$ 83,018

The following schedule summarizes the investment return, which is classified as net assets with donor restrictions in the statement of activities for the year ended September 30, 2019.

	2019
Realized and unrealized gains	$ 8,018
	$ 8,018

NOTE 6 – LAND, BUILDINGS AND EQUIPMENT

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

	2019	2018
Land	**$ 5,886,842**	$ 5,886,842
Building and improvements	**17,558,883**	17,451,764
Equipment	**212,937**	178,147
Furniture and fixtures	**497,510**	497,510
Autos and trucks	**178,512**	203,487
Equipment under capital lease	**551,109**	551,109
Software	**172,759**	158,803
	25,058,552	24,927,662
Less: accumulated depreciation and amortization	**(8,714,854)**	(8,131,021)
	$ 16,343,698	$ 16,796,641

Depreciation and amortization expense was $624,833 and $599,031 for the years ended September 30, 2019 and 2018, respectively.

NOTE 7 – 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 5.5% at September 30, 2019. The outstanding balances were $0 at September 30, 2019 and 2018. The line-of-credit is secured by a commercial security agreement. Interest expense was $0 for the years ended September 30, 2019 and 2018.

NOTE 8 – NOTES PAYABLE

Notes payable consist of the following at September 30:

	2019	2018
Note payable to a commercial bank 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 and $17,909 at September 30, 2019 and 2018, respectively.	**$ 4,613,985**	$ 4,763,285
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 $1,158,067 and $1,064,867 at September 30, 2019 and 2018, respectively.	**2,000,000**	2,000,000
Note payable to a commercial bank 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 expired and was forgiven in August 2019 and was secured by a deed of trust.	**-**	1,000,000
Loan payable to a public utility company, dated May 22, 2014 in the original amount of $84,285. This loan was noninterest bearing as a part of On Bill Financing Loan Agreement and principal was payable in 52 monthly installments of $1,621.	**-**	1,621
Total notes payable	**6,613,985**	7,764,906
Less: current portion	**(155,755)**	(151,001)
	$ 6,458,230	$ 7,613,905

In August 2019, the $1,000,000 note payable under the Affordable Housing Program expired. Due to the Mission's compliance with all of its obligations under the Agreement outlined in the Affordable Housing Program Direct Subsidy Agreement Rental Project ("Agreement"), the bank forgave the debt balance in its entirety. As such, the note payable balance is $0 as of September 30, 2019. Due to the lack of substantive benefit that the bank received for the transaction, the forgiveness of debt constitutes an unconditional contribution without donor restriction, in accordance with ASU 2016-14. As such, the $1,000,000 forgiveness of debt is included as a corporate contribution in the statement of financial position for the year ended September 30, 2019.

Interest expense was $307,456 and $311,384 for the years ended September 30, 2019 and 2018, respectively. As of September 30, 2019, the Organization was in substantial compliance with the covenants, conditions, and restrictions included in the loan agreements.

NOTE 8 – NOTES PAYABLE, (CONTINUED)

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

Years ending September 30,		
2020	$	155,755
2021		163,597
2022		171,219
2023		179,197
2024		187,047
Thereafter		5,757,170
	$	6,613,985

NOTE 9 – 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 net assets with donor restrictions (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.

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, 2019.

NOTE 9 – 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 and open ended mutual funds. The Organization's spending policy is to disburse funds available to meet the current program needs of the Organization.

In January 2019, the Organization's board of directors voted to release the entire balance of the previously restricted endowment fund to net assets without donor restriction to be used for capital projects such as building renovations. Since the board has determined the appropriate use for the released funds, the endowment funds are classified as board-designated net assets without donor restrictions as of September 30, 2019.

Net assets consist of the following at September 30, 2019 and 2018:

	2019	2018
Without donor restriction:		
Designated by the board for capital projects	**$ 323,467**	$ -
Undesignated	**9,872,858**	9,514,572
	10,196,325	9,514,572
With donor restriction:		
Zinngrabe warehouse improvements	**33,735**	-
Barbara Lee scholarship fund	**83,018**	-
Earnings from endowment	**-**	61,159
Endowment fund	**-**	397,115
	116,753	458,274
Total net assets	**$ 10,313,078**	$ 9,972,846

NOTE 10 – LEASE AGREEMENTS

Facility and Equipment Leases

The Organization leases commercial space for the administrative offices and the thrift stores in San Diego. The term of the administrative office lease is from March 1, 2016 to July 31, 2026. The term of the National City lease was from June 1, 2013 to May 31, 2018, and was not renewed at the time of lease expiration. The term of the lease for the Sports Arena thrift store in San Diego was from February 1, 2014 to May 30, 2019, and was extended upon expiration from June 1, 2019 to January 31, 2023. Rent expense under the commercial leases totaled $333,054 and $406,606 for the years ended September 30, 2019 and 2018, respectively.

NOTE 10 – LEASE AGREEMENTS, (CONTINUED)

The Organization has entered into various noncancelable operating equipment leases.

Future minimum rental payments under the leases are as follows:

Years ending September 30,	Equipment leases	Facility leases	Total minimum lease payments
2020	$ 49,720	$ 352,292	$ 402,012
2021	43,788	362,861	406,649
2022	43,788	355,940	399,728
2023	32,841	240,370	273,211
2024	-	174,218	174,218
Thereafter	-	333,090	333,090
	$ 170,137	$ 1,818,771	$ 1,988,908

Capital leases

Equipment under capital lease consists of five delivery trucks with total capitalized costs of $551,109 at September 30, 2019 and 2018. The assets and liabilities under capital leases 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 $115,707 and $34,272 for the years ended September 30, 2019 and 2018, respectively, and is included in depreciation and amortization expense. Interest on the capital lease was $30,207 and $9,380 for the years ended September 30, 2019 and 2018, respectively. Future minimum lease payments are as follows:

Years ending September 30,	
2020	$ 99,408
2021	99,408
2022	99,408
2023	94,041
2024	77,940
Thereafter	64,950
	535,155
Amount representing interest	(84,539)
	$ 450,616

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 operating leases which expire on various dates through December 2021.

Rental income under lease agreements totaled $198,106 and $196,236 for the years ended September 30, 2019 and 2018, respectively.

NOTE 10 – LEASE AGREEMENTS, (CONTINUED)

Rental Income, Continued
The related future minimum lease income is as follows for the years ended September 30:

2020	$	105,600
2021		104,280
2022		26,070
2023		-
2024		-
Thereafter		-
	$	235,950

NOTE 11 – WAREHOUSE SALE

During 2019, the Organization's board decided to begin the process to sell the University Avenue Warehouse (the "Warehouse") and to purchase a smaller warehouse at a different location. In June 2019, the Organization's board approved of purchase agreements to sell the Warehouse and to buy a warehouse located in National City. On September 20, 2019, the Organization executed a purchase agreement for the sale of the Warehouse for $7,750,000, in addition to a non-refundable deposit of $150,000 that was received on September 25, 2019 and was recorded as deferred revenue, pending the completion of the sale to be recorded as revenue.

In November 2019, the purchase agreement of the Warehouse fell through. As such, since the sale of the Warehouse would not be completed, the Organization classified this event as a Type 1 subsequent event, requiring a reclassification the $150,000 non-refundable deposit from deferred revenue to miscellaneous income for the year ended September 30, 2019.

For the related transactions that occurred in October 2019, refer to Note 14.

NOTE 12 – 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, 2019 and 2018.

NOTE 13 – LIQUIDITY AND FUNDS AVAILABLE

The following table reflects the Organization's financial assets as of September 30, 2019, reduced by amounts not available for general expenditure within one year. Financial assets include assets that are considered unavailable when illiquid or not convertible to cash within one year and receivables not available for general expenditure.

	2019
Financial assets:	
Cash and cash equivalents	$ 548,207
Investments in marketable securities	1,440,249
Accounts receivable	7,663
Financial assets, at year-end	1,996,119
Less those unavailable for general expenditure within one year	-
Financial assets available to meet cash needs for general expenditures within one year	$ 1,996,119

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 14 – SUBSEQUENT EVENTS

After receiving the $150,000 non-refundable deposit on the sale of the Warehouse in September 2019 (Note 11), the Organization agreed to extend the closing date of the sale of the Warehouse in the Amendment to Commercial Contract (the "Amendment") entered into on October 17, 2019. This Amendment required the purchasing party to pay an additional $50,000 non-refundable deposit, which was received on October 18, 2019. Using the funds received from these two deposits, the Organization made respective deposits of $100,000 and $50,000 on October 10 and 24, 2019, to secure the purchase of the National City warehouse, which the Mission agreed to purchase for $3,600,000.

In November 2019, the purchase agreement for the Warehouse fell through. Since the Organization was planning on purchasing the National City warehouse using the proceeds from the sale of the Warehouse, the escrow period of the National City warehouse expired. Due to the fact that all deposits received and paid were non-refundable, the $50,000 deposit received on October 18 will be included as miscellaneous income, and the $150,000 deposits paid on October 10 and 24 will be included as expenses in the statement of operations for the year ended 2020.

On November 14, 2019, the Mission entered into a new purchase agreement to sell the warehouse for $7,750,000, which included a non-refundable deposit of $150,000, which the Organization received on December 17, 2019. Concurrently, the Mission entered into a purchase agreement to buy the National City warehouse on November 15, 2019 for $3,600,000, which included a non-refundable deposit of $100,000 that was paid by the Mission on November 26, 2019. As of December 19, 2019, the purchase agreements for both warehouses were still in escrow.

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 19, 2019, the date the consolidated financial statements were available to be issued, and determined that no additional subsequent events have occurred that would require recognition on the consolidated financial statements or disclosure in the notes thereto.

Appendix A

San Diego Rescue Mission
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2019

	Program Services								Supporting Services			
	Men, Women and Children's Services	Partners for Hunger Relief	Thrift Stores	Transitional Housing	Recuperative Care Unit	Children's Center	Special Events	Total Program Services	Fundraising	Management and General	Total Supporting Services	2019 Total
Salaries and wages	$ 1,327,243	$ 216,300	$ 255,080	$ 348,709	$ 111,171	$ 283,394	$ -	**$ 2,541,897**	$ 322,807	$ 540,814	**$ 863,621**	**$ 3,405,518**
Employee benefits	309,290	53,277	53,398	73,942	18,887	80,714	-	**589,508**	54,689	130,062	**184,751**	**774,259**
Payroll tax expense	113,008	18,483	22,622	29,908	9,891	23,966	-	**217,878**	25,284	34,346	**59,630**	**277,508**
Donated food and materials	3,920,252	2,705,000	1,021,969	843,572	63,103	77,411	-	**8,631,307**	36,791	36,791	**73,582**	**8,704,889**
Fundraising	-	-	-	-	-	-	167,482	**167,482**	1,401,264	-	**1,401,264**	**1,568,746**
Utilities	-	3,525	34,374	-	-	-	-	**37,899**	-	-	**-**	**37,899**
Rent	-	-	167,527	-	-	-	-	**167,527**	-	-	**-**	**167,527**
Outside services	20,452	1,158	3,161	2,583	2,967	3,674	-	**33,995**	-	19,740	**19,740**	**53,735**
Auto expense	13,274	72,357	-	-	163	219	-	**86,013**	-	-	**-**	**86,013**
Supplies	5,966	2,199	4,860	675	205	333	-	**14,238**	1,305	3,035	**4,340**	**18,578**
Repairs and maintenance	-	-	12,434	-	-	-	-	**12,434**	-	-	**-**	**12,434**
Public relations	-	-	12,412	-	-	-	-	**12,412**	36,000	-	**36,000**	**48,412**
Communications	2,137	2,196	7,591	501	190	344	-	**12,959**	687	9,975	**10,662**	**23,621**
Equipment rental	-	4,454	-	-	-	-	-	**4,454**	-	-	**-**	**4,454**
Professional fees	-	-	-	-	-	-	-	**-**	-	50,901	**50,901**	**50,901**
Permit/license	34,428	347	-	1,178	181	-	-	**36,134**	-	116	**116**	**36,250**
Bank fees	-	-	15,391	-	-	-	-	**15,391**	-	23,892	**23,892**	**39,283**
Client services	26,294	-	-	3,833	943	3,564	-	**34,634**	-	-	**-**	**34,634**
Postage	15	-	-	-	-	-	-	**15**	853	1,187	**2,040**	**2,055**
Dues and subscriptions	381	-	-	-	-	-	-	**381**	1,278	13,797	**15,075**	**15,456**
Meal, travel, and entertainment	1,504	326	-	151	270	80	-	**2,331**	4,105	16,205	**20,310**	**22,641**
Other	669	-	18,927	180	6,194	147	-	**26,117**	-	42,241	**42,241**	**68,358**
Security	12,374	-	8,372	-	-	-	-	**20,746**	-	-	**-**	**20,746**
Depreciation	374,384	-	5,124	59,255	11,851	19,931	-	**470,545**	19,393	19,393	**38,786**	**509,331**
Interest	213,682	13,098	-	33,820	6,764	11,376	-	**278,740**	11,068	11,068	**22,136**	**300,876**
Facilities allocated costs	972,071	-	-	153,853	30,771	51,750	-	**1,208,445**	50,352	50,352	**100,704**	**1,309,149**
Distribution center allocated costs	223,610	-	321,279	35,341	7,068	11,566	-	**598,864**	11,566	11,566	**23,132**	**621,996**
Food services allocated costs	633,316	(224,615)	-	144,300	8,017	8,017	-	**569,035**	-	-	**-**	**569,035**
Total program and supporting services expenses	**$ 8,204,350**	**$ 2,868,105**	**$ 1,964,521**	**$ 1,731,801**	**$ 278,636**	**$ 576,486**	**$ 167,482**	**$ 15,791,381**	**$ 1,977,442**	**$ 1,015,481**	**$ 2,992,923**	**$ 18,784,304**

San Diego Rescue Mission
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2018

	Program Services							Supporting Services			
	Men, Women and Children's Services	Partners for Hunger Relief	Thrift Stores	Transitional Housing	Recuperative Care Unit	Children's Center	Total Program Services	Fundraising	Management and General	Total Supporting Services	2018 Total
Salaries and wages	$ 1,304,925	$ 207,392	$ 284,188	$ 351,155	$ 312,177	$ 240,294	**$ 2,700,131**	$ 261,417	$ 578,975	**$ 840,392**	**$ 3,540,523**
Employee benefits	209,593	42,652	69,787	69,089	58,322	46,817	**496,260**	28,292	99,790	**128,082**	**624,342**
Payroll tax expense	110,430	17,761	24,361	29,881	26,944	20,127	**229,504**	18,497	40,300	**58,797**	**288,301**
Donated food and materials	4,296,938	3,340,799	1,073,105	822,918	212,229	85,767	**9,831,756**	38,632	38,632	**77,264**	**9,909,020**
Fundraising	-	-	-	-	-	-	**-**	1,202,056	-	**1,202,056**	**1,202,056**
Utilities	-	12,762	43,872	-	-	-	**56,634**	-	-	**-**	**56,634**
Rent	-	-	240,442	-	-	-	**240,442**	-	-	**-**	**240,442**
Outside services	57,858	1,209	3,556	2,352	14,313	2,313	**81,601**	11,985	36,452	**48,437**	**130,038**
Auto expense	11,911	93,595	-	-	1,105	407	**107,018**	-	-	**-**	**107,018**
Supplies	6,067	3,137	6,908	4,337	538	629	**21,616**	1,934	4,552	**6,486**	**28,102**
Food	-	1,988	-	-	-	-	**1,988**	-	-	**-**	**1,988**
Repairs and maintenance	-	-	22,528	-	-	-	**22,528**	-	-	**-**	**22,528**
Public relations	-	-	11,005	-	-	-	**11,005**	39,340	-	**39,340**	**50,345**
Communications	1,945	1,862	6,732	800	759	443	**12,541**	1,059	10,179	**11,238**	**23,779**
Equipment rental	-	7,304	-	-	-	-	**7,304**	-	-	**-**	**7,304**
Professional fees	-	-	-	-	-	-	**-**	-	113,593	**113,593**	**113,593**
Permit/license	3,865	1,099	795	800	400	267	**7,226**	-	930	**930**	**8,156**
Bank fees	-	-	24,415	-	-	-	**24,415**	-	27,438	**27,438**	**51,853**
Client services	24,421	-	-	4,497	2,613	8,641	**40,172**	-	-	**-**	**40,172**
Postage	191	-	-	52	46	36	**325**	1,708	2,878	**4,586**	**4,911**
Dues and subscriptions	372	-	-	-	-	-	**372**	1,375	13,446	**14,821**	**15,193**
Meal, travel, and entertainment	1,789	670	-	399	640	63	**3,561**	3,820	21,047	**24,867**	**28,428**
Other	1,276	-	18,039	345	8,407	239	**28,306**	-	28,533	**28,533**	**56,839**
Security	25,908	-	1,881	-	-	-	**27,789**	-	-	**-**	**27,789**
Depreciation	363,088	-	5,124	59,603	36,637	20,232	**484,684**	19,685	19,686	**39,371**	**524,055**
Interest	206,759	5,962	-	33,941	20,863	11,521	**279,046**	11,210	11,210	**22,420**	**301,466**
Facilities allocated costs	908,702	-	-	149,169	91,691	50,636	**1,200,198**	49,267	49,267	**98,534**	**1,298,732**
Distribution center allocated costs	209,064	-	313,910	33,902	20,718	11,301	**588,895**	11,301	11,301	**22,602**	**611,497**
Food services allocated costs	584,186	(198,810)	-	115,300	23,060	7,687	**531,423**	-	-	**-**	**531,423**
Total program and supporting services expenses	**$ 8,329,288**	**$ 3,539,382**	**$ 2,150,648**	**$ 1,678,540**	**$ 831,462**	**$ 507,420**	**$ 17,036,740**	**$ 1,701,578**	**$ 1,108,209**	**$ 2,809,787**	**$ 19,846,527**