San Diego Rescue Mission
Consolidated Financial Statements

September 30, 2017 and 2016

Swenson Advisors, LLP

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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, 2017 and 2016, 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, 2017 and 2016, 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 21 and 22 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
December 26, 2017

San Diego Rescue Mission
Consolidated Statements of Financial Position
September 30, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 584,565	$ 2,361,817
Investments in marketable securities	1,565,526	2,266
Accounts receivable	238,669	216,629
Prepaid expenses	147,321	160,221
Other current assets	8,178	5,550
Inventory, net	238,888	183,268
	2,783,147	2,929,751
Property and equipment	16,865,293	17,306,036
Other assets		
Loan cost, net	50,528	55,121
Endowment investments	439,405	399,514
Other long-term assets	53,282	53,874
	543,215	508,509
Total assets	$ 20,191,655	$ 20,744,296
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	$ 263,597	$ 489,739
Compensated absences	147,770	131,578
Deferred revenue	144	33,000
Deposits	6,270	5,000
Current portion of notes payable	162,181	155,827
	579,962	815,144
Long-term liabilities		
Notes payable	7,766,417	7,928,559
Interest payable	974,378	886,580
Deferred rent	82,439	66,918
Capital lease obligation	110,111	-
	8,933,345	8,882,057
Total liabilities	9,513,307	9,697,201
Commitments (Note 8)	-	-
Net assets		
Unrestricted	10,228,661	10,641,803
Temporarily restricted	52,572	8,177
Permanently restricted	397,115	397,115
Total net assets	10,678,348	11,047,095
Total liabilities and net assets	$ 20,191,655	$ 20,744,296

See accompanying notes to the consolidated financial statements

San Diego Rescue Mission
Consolidated Statements of Activities
For the Years Ended September 30, 2017 and 2016

	2017	2016
Changes in net assets - unrestricted		
Revenues and support		
Donated food	$ 8,027,661	$ 7,230,983
Contributions	6,377,807	5,815,223
Donated material	2,262,239	2,073,680
Thrift stores	1,165,924	1,190,268
Grants and contracts	391,804	452,534
Rental income	194,916	192,181
Recuperative care unit	544,850	423,590
Program fees	126,786	74,752
Special events	56,081	136,597
Vehicle donation sales	90,400	83,065
Miscellaneous income	110,351	90,165
Total revenues	19,348,819	17,763,038
Net assets released from restrictions	24,096	1,263
Total unrestricted revenues and support	19,372,915	17,764,301
Expenses		
Program services		
Men, women, and children's services	8,155,166	7,650,615
Partners for Hunger Relief	3,662,024	3,256,694
Thrift stores	2,196,505	2,176,632
Transitional housing	1,523,432	1,601,142
Recuperative care unit	903,692	895,378
Children's center	432,504	367,672
Sleepless America	240	160
Total program services	16,873,563	15,948,293
Support services		
Fundraising and development	1,513,572	1,741,164
Management and general	1,298,370	1,136,717
Total supporting services	2,811,942	2,877,881
Total program and supporting expenses	19,685,505	18,826,174
Special events expenses	100,552	148,215
Total expenses	19,786,057	18,974,389
Decrease in net assets - unrestricted	(413,142)	(1,210,088)
Changes in net assets - temporarily restricted		
Contributions	28,600	5,000
Investment Income	39,891	194
Net assets released from restrictions	(24,096)	(1,263)
Increase (decrease) in net assets - temporarily restricted	44,395	3,931
Decrease in net assets	(368,747)	(1,206,157)
Net assets at beginning of period	11,047,095	12,253,252
Net assets at end of period	$ 10,678,348	$ 11,047,095

See accompanying notes to the consolidated financial statements

San Diego Rescue Mission
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	$ (368,747)	$ (1,206,157)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	587,399	581,358
Beneficial interest in charitable gift annuity	592	(558)
In-kind contribution of inventory, net	(55,620)	123,760
In-kind contribution of furniture	-	(123,199)
Forgiveness of debt	-	(73,016)
Net unrealized and realized gains on investments	(106,558)	(211)
Net unrealized and realized gains on endowment	(39,891)	(194)
Decrease (increase) in assets:		
Accounts receivable	(22,040)	(60,302)
Prepaid expenses	12,900	(23,460)
Other current assets	(2,628)	(15,455)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(226,142)	(62,837)
Compensated absences	16,192	1,706
Deferred revenue	(32,856)	19,357
Deposits	1,270	
Interest payable	87,798	85,206
Deferred rent	15,521	26,648
Net cash used in operating activities	(132,810)	(727,354)
Cash flows from investing activities:		
Investment in marketable securities	(1,456,702)	-
Purchase of property and equipment	(27,422)	(207,707)
Net cash used in investing activities	(1,484,124)	(207,707)
Cash flows from financing activities:		
Principal payments on notes payable	(155,788)	(479,512)
Principal payments on capital lease obligation	(4,530)	(9,195)
Net cash used in financing activities	(160,318)	(488,707)
Net decrease in cash	(1,777,252)	(1,423,768)
Cash and cash equivalents - beginning of year	2,361,817	3,785,585
Cash and cash equivalents - end of year	$ 584,565	$ 2,361,817
Supplemental disclosures of cash flow information:		
Acquisition of equipment under capital lease	$ 114,641	$ -
Cash paid during the year for interest	$ 227,819	$ 234,519
In-kind contributions:		
Stock	$ 25,709	$ 24,271

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, 2017 and 2016.

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 $238,888 and $183,268 in net inventory at September 30, 2017 and 2016, 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 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

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

Land, Buildings and Equipment and Depreciation, Continued
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 2017 or 2016.

Loan Costs and Amortization
Loan costs totaling $50,528 and $55,121 net of accumulated amortization of $18,372 and $13,779 at September 30, 2017 and 2016, respectively, are amortized over a 15-year period using a straight-line method. Amortization totaled $4,593 for both years ended September 30, 2017 and 2016.

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, 2017 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, 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.

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

Revenue Recognition

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

Contributions are recognized when the donor makes 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 2017 and 2016. The valuation of contributed time is not reflected in these statements since they do not require specialized skills.

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

	2017	2016
Revenue:		
Donated food	$ 8,027,661	$ 7,230,983
Donated material	2,262,239	2,073,680
Total revenue	$ 10,289,900	$ 9,304,663
Expenses:		
Food services	$ 8,027,661	$ 7,230,983
Distribution center	2,206,619	2,074,241
Depreciation	20,532	10,266
Total expenses	$ 10,254,812	$ 9,315,490

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.

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

Income Tax Status

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

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, 2017 or 2016.

The Organization's federal exempt organization returns for tax years 2013 and beyond remain subject to examination by the Internal Revenue Service. The Organization's exempt organization returns of the tax years 2012 and beyond remain subject to examination by the Franchise Tax Board.

The Organization did not have unrecognized tax benefits as of September 30, 2017 or 2016 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, 2017 and 2016, 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.

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.

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

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.

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 ASU No. 2016-02, 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, 2019. 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 the effect in the presentation of its financial statements.

In August 2016, the FASB issued ASU 2016-14, Not for Profit (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This new guidance will improve the current 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. The guidance is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application of the amendments in this ASU is permitted. The Organization is currently evaluating the impact of the new guidance and has not determined the effect on the presentation of its financial statements and disclosures or its effective date of adoption.

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, contributions received and made, primarily by not-for-profit organizations.

In August 2017, the FASB issued an exposure draft, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* which would clarify characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions. 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 $1,311,783 in open-ended mutual funds and $253,743 in ETF's and CEF's at September 30, 2017 and of $2,266 in open-ended mutual funds at September 30, 2016. The following schedule summarizes the investment return and is classified as unrestricted in the statement of activities for the years ended September 30, 2017 and 2016.

	2017	2016
Interest and dividend income	$ 120	$ 211
Realized and unrealized gains	106,438	-
	$ 106,558	$ 211

NOTE 3 – LAND, BUILDINGS AND EQUIPMENT

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

	2017	2016
Land	$ 5,886,842	$ 5,886,842
Building and improvements	17,451,764	17,443,424
Equipment	119,763	119,763
Furniture and fixtures	497,510	497,510
Autos and trucks	167,960	167,960
Equipment under capital lease	114,641	36,500
Software	158,803	139,721
	24,397,283	24,291,720
Less: accumulated depreciation and amortization	(7,531,990)	(6,985,684)
	$ 16,865,293	$ 17,306,036

Depreciation and amortization expense was $582,806 and $576,765 for the years ended September 30, 2017 and 2016, respectively.

NOTE 4 – ENDOWMENT INVESTMENTS

The endowment investments are stated at fair value and consist of the following at September 30:

	2017	2016
Money Market Fund	$ 6,579	$ 399,514
Mutual Funds	70,986	-
ETFs & CEFs	361,840	-
	$ 439,405	$ 399,514

The following schedule summarizes the investment return and is classified as temporarily restricted in the statement of activities for the years ended September 30, 2017 and 2016.

	2017	2016
Interest and dividend income	$ 4	$ 194
Realized and unrealized gains	39,887	-
	$ 39,891	$ 194

NOTE 5 – LINE-OF-CREDIT

The Organization has a line-of-credit available in the amount of $500,000. Bank advances are payable on demand at an interest rate of prime plus 0.5% or 4.0% at September 30, 2017. The outstanding balances were $0 at September 30, 2017 and 2016. The line-of-credit is secured by a commercial security agreement. Interest expense was $0 for the years ended September 30, 2017 and 2016.

NOTE 6– NOTES PAYABLE

Notes payable consist of the following at September 30:

	2017	2016
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 at September 30, 2017 and 2016.	**\$ 4,905,906**	\$ 5,042,244
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 \$974,378 and \$886,580 at September 30, 2017 and 2016 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 is due April, 2019 and is secured by a deed of trust.	**1,000,000**	1,000,000
Loan payable to a public utility company, 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.	**22,692**	42,142
Total notes payable	**7,928,598**	8,084,386
Less: current portion	**(162,181)**	(155,827)
	\$ 7,766,417	\$ 7,928,559

In October 2015, the San Diego Housing Commission approved the repayment of the \$402,368 recourse promissory note with the Organization by accepting \$329,210 as repayment and the forgiveness of \$73,158. On October 25, 2016, the \$329,210 was paid by the Organization to the San Diego Housing Commission in satisfaction of the \$402,368 note payable and the \$73,158 forgiveness of debt is recorded in miscellaneous income on the consolidated statement of activities for the year ended September 30, 2016.

NOTE 6 – NOTES PAYABLE (CONTINUED)

Interest expense was $315,833 and $319,794 for the years ended September 30, 2017 and 2016, respectively. As of September 30, 2016, 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:

Years ending September 30,		
2018	$	162,181
2019		152,622
2020		155,755
2021		163,597
2022		171,219
Thereafter		7,123,224
	$	7,928,598

NOTE 7 – NET ASSETS

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

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

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2017.

NOTE 7 – NET ASSETS (CONTINUED)

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

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

The Organization's endowment funds are invested in money market funds and open ended mutual 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, 2017 and 2016:

	2017	2016
Unrestricted:		
Undesignated	$ 10,228,661	$ 10,641,803
Temporarily restricted:		
Children's Center expansion	5,000	-
Fund-a-Need	3,357	-
Library	1,925	-
Women's Center Electric Door	-	5,000
Children's Activity Fund	-	778
Earnings from endowment	42,290	2,399
	52,572	8,177
Permanently restricted:		
Endowment fund	397,115	397,115
Total net assets	$ 10,678,348	$ 11,047,095

NOTE 8 – LEASE AGREEMENTS

Facility and Equipment Leases

The Organization leases commercial space for the administrative offices and the thrift stores in National City and Point Loma. The term of the administrative office lease is from March 1, 2016 to July 31, 2026.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 $457,307 and $368,938 for the years ended September 30, 2017 and 2016, respectively.

NOTE 8 – 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
2018	$ 128,760	$ 343,521	$ 472,281
2019	107,102	233,296	340,398
2020	14,657	154,791	169,448
2021	2,000	159,435	161,435
2022	-	164,218	164,218
Thereafter	-	676,453	676,453
	$ 252,519	$ 1,731,714	$ 1,984,233

Capital leases

Equipment under capital lease consists of a delivery truck with a capitalized cost of $114,641 at September 30, 2017, and office equipment with a capitalized cost of $36,500 at September 30, 2016. 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 $4,776 and $7,300 for the years ended September 30, 2017 and 2016, respectively and is included in depreciation and amortization expense. Interest on the capital lease was $836 and $659 for the years ended September 30, 2017 and 2016, respectively. Future minimum lease payments are as follows:

Years ending September 30,	
2018	$ 21,468
2019	21,468
2020	21,468
2021	21,468
2022	21,468
Thereafter	16,101
	123,441
Amount representing interest	(13,330)
	$ 110,111

NOTE 8 – LEASE AGREEMENTS (CONTINUED)

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 $194,916 and $192,181 for the years ended September 30, 2017 and 2016, respectively.

The related future minimum lease income is as follows for the year ended September 30:

Years ending September 30,		
2018	$	101,200
2019		95,040
2020		95,040
2021		95,040
2022		23,760
	$	410,080

NOTE 9 – PENSION PLAN

The Organization adopted a 403(b) Thrift Plan (the "Thrift Plan") in 1998. The Thrift Plan is available to all full-time employees and employees may elect to make voluntary contributions to it. The Organization has no obligation to match employee contributions and made no matching contributions for the years ended September 30, 2017 and 2016.

NOTE 10 – SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 26, 2017, the date the consolidated financial statements were available to be issued, and determined that no 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, 2017

	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	2017 Total
Salaries and wages	$ 1,233,890	$ 199,537	$ 319,066	$ 314,947	$ 262,896	$ 179,388	$ -	$ 2,509,724	$ 287,405	$ 827,416	$ 1,114,821	$ 3,624,545
Employee benefits	144,715	31,569	43,458	63,468	35,597	28,942	-	347,749	25,867	128,889	154,756	502,505
Payroll tax expense	105,383	16,224	27,999	27,184	24,134	15,073	-	215,997	23,125	55,173	78,298	294,295
Donated food and materials	4,390,281	3,454,763	1,103,310	783,860	334,170	88,459	-	10,154,843	39,719	39,719	79,438	10,234,281
Fundraising	-	-	-	-	-	-	240	240	1,008,482	-	1,008,482	1,008,722
Utilities	-	22,027	50,809	-	-	-	-	72,836	-	-	-	72,836
Rent	-	-	285,384	-	-	-	-	285,384	-	-	-	285,384
Outside services	5,570	2,640	3,124	722	10,491	2,055	-	24,602	-	15,907	15,907	40,509
Auto expense	10,548	132,455	-	-	802	-	-	143,805	-	-	-	143,805
Supplies	8,539	1,877	6,824	1,413	2,227	1,336	-	22,216	1,299	9,915	11,214	33,430
Food	-	3,867	-	-	-	-	-	3,867	-	-	-	3,867
Repairs and maintenance	-	-	19,120	-	-	-	-	19,120	-	-	-	19,120
Insurance	-	-	-	-	-	-	-	-	-	-	-	-
Public relations	200	-	10,797	-	-	-	-	10,997	36,892	-	36,892	47,889
Communications	920	-	15,333	480	300	480	-	17,513	240	7,930	8,170	25,683
Equipment rental	-	3,387	-	-	-	-	-	3,387	-	-	-	3,387
Professional fees	-	-	-	-	-	-	-	-	-	39,519	39,519	39,519
Permit/license	62,875	1,050	30	500	500	242	-	65,197	-	145	145	65,342
Bank fees	-	-	20,276	-	-	-	-	20,276	-	20,668	20,668	40,944
Client services	29,606	-	-	3,926	1,939	21,521	-	56,992	-	-	-	56,992
Postage	127	-	-	-	-	-	-	127	1,727	2,183	3,910	4,037
Dues and subscriptions	878	-	-	-	-	-	-	878	370	11,112	11,482	12,360
Meal, travel, and entertainment	2,109	560	-	617	-	43	-	3,329	3,339	8,612	11,951	15,280
Other	-	-	3,715	-	-	-	-	3,715	-	46,075	46,075	49,790
Security	-	-	1,849	-	-	-	-	1,849	-	-	-	1,849
Depreciation	370,394	-	5,124	51,089	44,980	20,547	-	492,134	19,991	19,991	39,982	532,116
Amortization	-	-	-	-	-	-	-	-	-	-	-	-
Interest	210,660	-	-	29,057	25,582	11,686	-	276,985	11,370	11,370	22,740	299,725
Loan fees	-	-	-	-	-	-	-	-	-	-	-	-
Facilities allocated costs	808,846	-	-	111,565	98,226	44,869	-	1,063,506	43,656	43,656	87,312	1,150,818
Distribution center allocated costs	186,671	-	280,287	25,786	22,984	10,090	-	525,818	10,090	10,090	20,180	545,998
Food services allocated costs	582,954	(207,932)	-	108,818	38,864	7,773	-	530,477	-	-	-	530,477
Total program and supporting services expenses	$ 8,155,166	$ 3,662,024	$ 2,196,505	$ 1,523,432	$ 903,692	$ 432,504	$ 240	$ 16,873,563	$ 1,513,572	$ 1,298,370	$ 2,811,942	$ 19,685,505

San Diego Rescue Mission
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2016

	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	2016 Total
Salaries and wages	$ 1,261,946	$ 143,727	$ 351,529	$ 414,723	$ 290,835	$ 137,422	$ -	$ 2,600,183	$ 327,802	$ 645,630	$ 973,432	$ 3,573,615
Employee benefits	158,658	22,165	52,644	68,084	37,666	18,117	-	357,334	21,365	101,594	122,959	480,293
Payroll tax expense	112,081	12,953	33,706	38,605	26,753	12,654	-	236,752	29,000	39,472	68,472	305,224
Donated food and materials	3,985,112	3,068,094	1,037,121	754,293	304,670	81,262	-	9,230,552	37,336	37,336	74,673	9,305,224
Fundraising	-	-	-	-	-	-	160	160	1,193,239	-	1,193,239	1,193,399
Utilities	-	20,935	53,675	-	-	-	-	74,610	-	-	-	74,610
Rent	-	-	281,835	-	-	-	-	281,835	-	-	-	281,835
Outside services	10,508	74,907	-	708	7,841	14,087	-	108,051	-	75,035	75,035	183,086
Auto expense	2,639	110,532	-	-	209	35	-	113,415	-	-	-	113,415
Supplies	7,430	2,086	10,949	1,322	2,747	3,559	-	28,093	1,950	9,562	11,512	39,605
Food	-	2,670	-	-	-	-	-	2,670	-	-	-	2,670
Repairs and maintenance	911	-	18,933	-	-	-	-	19,844	-	-	-	19,844
Insurance	-	-	-	-	-	-	-	-	-	-	-	-
Public relations	-	-	11,118	-	-	-	-	11,118	38,600	-	38,600	49,718
Communications	-	-	19,471	-	-	-	-	19,471	-	-	-	19,471
Equipment rental	-	3,573	-	-	-	-	-	3,573	-	-	-	3,573
Professional fees	-	-	-	-	-	3,068	-	3,068	-	51,520	51,520	54,588
Permit/license	2,070	1,229	480	121	-	365	-	4,265	-	5,003	5,003	9,268
Bank fees	-	-	20,853	-	-	-	-	20,853	-	29,726	29,726	50,579
Client services	32,686	-	-	3,319	2,322	5,249	-	43,576	-	-	-	43,576
Postage	-	-	57	-	-	-	-	57	4,113	2,248	6,361	6,417
Dues and subscriptions	426	-	-	-	-	-	-	426	1,736	10,731	12,468	12,894
Meal, travel, and entertainment	2,444	168	-	127	-	10	-	2,750	3,452	8,667	12,119	14,869
Other	-	-	1,830	-	-	-	-	1,830	-	36,962	36,962	38,791
Security	-	-	1,763	-	-	-	-	1,763	-	-	-	1,763
Depreciation	366,269	-	5,124	50,520	44,479	20,318	-	486,710	19,769	19,769	39,537	526,247
Amortization	-	-	-	-	-	-	-	-	-	-	-	-
Interest	212,863	-	-	29,360	25,850	11,808	-	279,881	11,489	12,148	23,637	303,518
Loan fees	-	-	-	-	-	-	-	-	-	-	-	-
Facilities allocated costs	766,937	-	-	105,785	93,136	42,544	-	1,008,402	41,394	41,394	82,788	1,091,190
Distribution center allocated costs	183,512	-	275,544	25,351	22,595	9,919	-	516,921	9,919	9,920	19,839	536,760
Food services allocated costs	544,123	(206,345)	-	108,824	36,275	7,255	-	490,132	-	-	-	490,132
Total program and supporting services expenses	$ 7,650,615	$ 3,256,694	$ 2,176,632	$ 1,601,142	$ 895,378	$ 367,672	$ 160	$ 15,948,293	$ 1,741,164	$ 1,136,717	$ 2,877,880	$ 18,826,174