

**DOWNTOWN RESCUE MISSION, INC. &
DOWNTOWN RESCUE MISSION TITLE HOLDING CORP.
CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2022**

MERCER & ASSOCIATES, P.C.

CONTENTS

| | |
|---|----|
| Independent Auditor's Report | 1 |
| Consolidated Statement of Financial Position | 3 |
| Consolidated Statement of Activities | 4 |
| Downtown Rescue Mission Statement of Functional Expenses | 5 |
| Consolidated Statement of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | 7 |
| Downtown Rescue Mission Supplemental Chart of Revenues & Expenses | 15 |

Mercer & Associates, PC

a CPA firm

201 Williams Ave SW Suite 280
Huntsville, Alabama 35801
(256) 536 – 4318
Fax (256) 533 - 7193

Jerry Mercer, CPA, owner
Lisa Eaton, CPA
Misty Whiting, CPA
Jordan Gibbs, CPA
Amy Todd, CPA

Members
Alabama Mission of C.P.A.s
American Institute C.P.A.s

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Downtown Rescue Mission, Inc. &
Downtown Rescue Mission Title Holding Corporation
Huntsville, Alabama

Opinion

We have audited the accompanying financial statements of Downtown Rescue Mission, Inc. & Downtown Rescue Mission Title Holding Corporation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Downtown Rescue Mission, Inc. & Downtown Rescue Mission Title Holding Corporation, Inc.as of June 30, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Downtown Rescue Mission, Inc. & Downtown Rescue Mission Title Holding Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 13 to the financial statements, the Organization adopted new accounting guidance ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. Our opinion is not modified with respect to this matter.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Downtown Rescue Mission, Inc. & Downtown Rescue Mission Title Holding Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Downtown Rescue Mission, Inc. & Downtown Rescue Mission Title Holding Corporation internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Downtown Rescue Mission, Inc. & Downtown Rescue Mission Title Holding Corporation's ability to continue as a going concern for a reasonable period of time.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Chart of Revenues and Expenses on page 15 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Mercer & Associates, PC

April 15, 2023

**DOWNTOWN RESCUE MISSION, INC. &
DOWNTOWN RESCUE MISSION TITLE HOLDING CORP.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022**

| ASSETS | Downtown Rescue Mission, Inc. | Downtown Rescue Mission Title Holding Corp. | Consolidated Total |
|--|----------------------------------|---|-----------------------|
| Current Assets | | | |
| Cash and Cash Equivalents | \$ 1,223,762 | \$ 26,737 | \$ 1,250,499 |
| Resident Savings | 4,858 | - | 4,858 |
| Prepaid Insurance | 6,261 | - | 6,261 |
| Accounts Receivable | - | - | - |
| Total Current Assets | 1,234,881 | 26,737 | 1,261,618 |
| Property and Equipment | | | |
| Land & Buildings | 14,440,471 | 6,643,680 | 21,084,151 |
| Vehicles | 283,593 | - | 283,593 |
| Furniture and Equipment | 239,236 | 338,858 | 578,094 |
| Accumulated Depreciation | (4,654,800) | (675,181) | (5,329,981) |
| Total Property and Equipment | 10,308,500 | 6,307,357 | 16,615,857 |
| Other Assets | | | |
| Inventory | 50,073 | - | 50,073 |
| NMTC Receivable (USBCDC) | 5,481,500 | - | 5,481,500 |
| Transfer Account | 230,871 | (230,871) | - |
| Total Other Assets | 5,762,444 | (230,871) | 5,531,573 |
| TOTAL ASSETS | \$ 17,305,825 | \$ 6,103,223 | \$ 23,409,048 |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities | | | |
| Accounts Payable | \$ 324,619 | \$ - | \$ 324,619 |
| Deposits for Residents | 1,972 | - | 1,972 |
| Accrued Salaries | 55,943 | - | 55,943 |
| Accrued Interest | 16,343 | - | 16,343 |
| Accrued Vacation Payable | 143,375 | - | 143,375 |
| NMTC Unearned Revenue | 1,116,932 | - | 1,116,932 |
| Current Portion of Long-Term Debt | 155,867 | - | 155,867 |
| Total current liabilities | 1,815,051 | - | 1,815,051 |
| Long-Term Liabilities | | | |
| Long-Term Debt - Less Current Portion | 2,635,621 | 7,500,000 | 10,135,621 |
| Construction Loan | 2,361,512 | - | 2,361,512 |
| Debt Issuance Costs, Net of Accumulated Amortization of \$81,636 | (76,032) | (370,742) | (446,774) |
| Total Long-Term Liabilities | 4,921,101 | 7,129,258 | 12,050,359 |
| Total liabilities | 6,736,152 | 7,129,258 | 13,865,410 |
| Net Assets | | | |
| Net Assets Without Donor Restrictions/(Deficit) | 10,455,389 | (1,026,035) | 9,429,354 |
| Net Assets With Donor Restrictions | 114,284 | - | 114,284 |
| Total Net Assets | 10,569,673 | (1,026,035) | 9,543,638 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 17,305,825 | \$ 6,103,223 | \$ 23,409,048 |

The accompanying notes to financial statements are an integral part of these financial statements

**DOWNTOWN RESCUE MISSION, INC. &
DOWNTOWN RESCUE MISSION TITLE HOLDING CORP.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022**

| <u>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</u> | Downtown Rescue | | Consolidated |
|---|--|--|---------------------|
| SUPPORT AND REVENUE | Downtown Rescue Mission, Inc. | Mission Title Holding Corp. | Total |
| Donations and Grants | \$ 3,764,840 | \$ - | \$ 3,764,840 |
| Contributions In Kind - Misson | 1,200,782 | - | 1,200,782 |
| Thrift Store Proceeds | 5,004,454 | - | 5,004,454 |
| Charges To Residents | 74,239 | - | 74,239 |
| Projects and Other | 23,977 | - | 23,977 |
| Fundraising Events Income Net of Expense (\$91,647) | 38,958 | - | 38,958 |
| Miscellaneous | 0 | - | - |
| Interest Income | 663 | - | 663 |
| Transfer of Assets from Downtown Rescue Mission Inc. | - | - | - |
| TOTAL SUPPORT AND REVENUE | 10,107,913 | - | 10,107,913 |
| Release of Donor Restricted Assets, Expended | (488,105) | - | (488,105) |
| Release of Donor Restricted Assets to Purchase Assets and Loan Costs | - | - | - |
| TOTAL SUPPORT, REVENUE & RELEASES | 9,619,808 | - | 9,619,808 |
| FUNCTIONAL EXPENSES | | | |
| Program Services | | | |
| Food and Shelter Program | 4,083,379 | - | 4,083,379 |
| Thrift Store Program | 4,102,949 | - | 4,102,949 |
| Total program services | <u>8,186,328</u> | <u>-</u> | <u>8,186,328</u> |
| Support Services | | | |
| Fundraising | 1,354,296 | - | 1,354,296 |
| Administrative & General | 411,137 | - | 411,137 |
| Total Support Services | <u>1,765,433</u> | <u>-</u> | <u>1,765,433</u> |
| TOTAL EXPENSES | 9,951,761 | - | 9,951,761 |
| INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS | (331,953) | - | (331,953) |
| <u>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</u> | | | |
| DONOR RESTRICTED SUPPORT | | | |
| Donations | 584,801.00 | - | 584,801 |
| NET ASSETS RELEASED FROM DONOR RESTRICTIONS | | | |
| Release of Donor Restricted Assets, Satisfaction of Purpose | 488,105.00 | - | 488,105 |
| Release of Donor Restricted Assets, Depreciation & Amortization Expense | - | (186,449) | (186,449) |
| INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS | 1,072,906 | (186,449) | 886,457 |
| INCREASE IN NET ASSETS | 740,953 | (186,449) | 554,504 |
| PRIOR PERIOD ADJUSTMENT (SEE NOTE 15) | 23,114 | - | 23,114 |
| Net Assets, Beginning | 9,805,606 | (839,586) | 8,966,020 |
| NET ASSETS, ENDING | \$ 10,569,673 | \$ (1,026,035) | \$ 9,543,638 |

The accompanying notes to financial statements are an integral part of these financial statements

DOWNTOWN RESCUE MISSION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

| | Program Services | | | Support Services | | | Total All Expenses |
|--------------------------------------|--------------------------|---------------------|---------------------|----------------------------|---------------------|---------------------|---------------------|
| | Food and Shelter Program | Thrift Store | Total | General and Administrative | Fund Raising | Total | |
| Advertising and Public Relations | \$ 0 | \$ 60,649 | \$ 60,649 | \$ 0 | \$ 4,273 | \$ 4,273 | \$ 64,922 |
| Bank Fees & Service Charges | 0 | 79,141 | 79,141 | 0 | 50,795 | 50,795 | 129,936 |
| Board Expense | 0 | 0 | 0 | 2,644 | 0 | 2,644 | 2,644 |
| Broker Commission | 0 | 18,846 | 18,846 | 0 | 0 | 0 | 18,846 |
| Building Rent | 0 | 381,054 | 381,054 | 0 | 0 | 0 | 381,054 |
| Depreciation | 300,302 | 125,150 | 425,452 | 0 | 0 | 0 | 425,452 |
| Dues and Memberships | 8,225 | 103 | 8,328 | 8,222 | 1,378 | 9,600 | 17,928 |
| Employee Benefits - Health Insurance | 268,789 | 244,746 | 513,535 | 47,758 | 64,224 | 111,982 | 625,517 |
| Employee Benefits - Workmen's Comp | 29,561 | 8,622 | 38,183 | 849 | 591 | 1,440 | 39,623 |
| Employee Benefits - Retirement | 45,782 | 10,755 | 56,537 | 2,560 | 2,504 | 5,064 | 61,601 |
| Employee Relations | 5,609 | 4,393 | 10,002 | 1,296 | 1,610 | 2,906 | 12,908 |
| Equipment | 108,136 | 87,722 | 195,858 | 14,666 | 74,235 | 88,901 | 284,759 |
| Events | 0 | 0 | 0 | 0 | 21,031 | 21,031 | 21,031 |
| Grant Writer | 0 | 0 | 0 | 0 | 20,500 | 20,500 | 20,500 |
| Hazard and Liability Insurance | 147,195 | 50,965 | 198,160 | 8,563 | 8,221 | 16,784 | 214,944 |
| Interest Expense and Amortization | 0 | 69,716 | 69,716 | 110,222 | 0 | 110,222 | 179,938 |
| Kitchen and Food Supplies | 38,409 | 21,316 | 59,725 | 57 | 12 | 69 | 59,794 |
| Licenses & Permits | 0 | 5,364 | 5,364 | 0 | 0 | 0 | 5,364 |
| Maintenance, Building & Grounds | 69,331 | 31,712 | 101,043 | 5,290 | 540 | 5,830 | 106,873 |
| Miscellaneous Expense | 5,692 | 5,691 | 11,383 | 141 | 6,258 | 6,399 | 17,782 |
| Payroll Taxes | 112,088 | 106,955 | 219,043 | 11,208 | 26,055 | 37,263 | 256,306 |
| Postage | 964 | 0 | 964 | 994 | 16,567 | 17,561 | 18,525 |
| Printing and Reproduction | 0 | 0 | 0 | 0 | 694,423 | 694,423 | 694,423 |
| Professional Fees | 2,654 | 0 | 2,654 | 11,706 | 413 | 12,119 | 14,773 |
| Program Expenses | 71,720 | 0 | 71,720 | 0 | 0 | 0 | 71,720 |
| Purchases | 0 | 229,542 | 229,542 | 0 | 0 | 0 | 229,542 |
| Recruiting | 926 | 6,409 | 7,335 | 1,947 | 185 | 2,132 | 9,467 |
| Salaries | 1,197,315 | 2,038,395 | 3,235,710 | 155,112 | 334,644 | 489,756 | 3,725,466 |
| Supplies | 70,750 | 89,605 | 160,355 | 3,663 | 3,038 | 6,701 | 167,056 |
| Telephone and Internet | 33,941 | 88,611 | 122,552 | 6,087 | 6,458 | 12,545 | 135,097 |
| Training and Conventions | 16,671 | 9,337 | 26,008 | 3,944 | 3,060 | 7,004 | 33,012 |
| Usage of Contributions In-Kind | 1,200,782 | 0 | 1,200,782 | 0 | 0 | 0 | 1,200,782 |
| Utilities | 219,430 | 147,509 | 366,939 | 11,477 | 10,319 | 21,796 | 388,735 |
| Vehicle Maintenance and Rental | 78,083 | 74,346 | 152,429 | 384 | 615 | 999 | 153,428 |
| Waste Disposal | 51,024 | 106,295 | 157,319 | 2,347 | 2,347 | 4,694 | 162,013 |
| TOTAL FUNCTIONAL EXPENSES | \$ 4,083,379 | \$ 4,102,949 | \$ 8,186,328 | \$ 411,137 | \$ 1,354,296 | \$ 1,765,433 | \$ 9,951,761 |

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN RESCUE MISSION, INC. &
DOWNTOWN RESCUE MISSION TITLE HOLDING CORP.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES

Reconciliation of Change in Net Assets to Net Cash Provided (Used) by Operating Activities

| | Downtown Rescue Mission, Inc. | Downtown Rescue Mission Title Holding Corp. | Consolidated Total |
|---|--|--|-------------------------------|
| Change in net assets | \$ 740,953 | \$ (186,449) | \$ 554,504 |
| Adjustment to reconcile net income to net cash provided (used) by operating activities: | | | |
| Prior Period Adjustment | 23,114 | - | 23,114 |
| Depreciation | 425,452 | 168,795 | 594,247 |
| Amortization | 3,482 | 17,654 | 21,136 |
| Decrease (increase) in: | | | |
| Resident Savings | 4,600 | - | 4,600 |
| Accounts Receivable | - | - | - |
| Prepaid Expenses | (868) | - | (868) |
| Grants Receivable | - | - | - |
| Pledges Receivable | - | - | - |
| USBCDC Receivable | - | - | - |
| Inventory | (5,737) | - | (5,737) |
| Undeposited Funds | - | - | - |
| Increase (decrease) in: | | | |
| Accounts Payable | (75,040) | - | (75,040) |
| Net Deposits | - | - | - |
| Payroll Taxes Payable | (15,976) | - | (15,976) |
| Accrued Payroll | (53,769) | - | (53,769) |
| Accrued Vacation | 7,447 | - | 7,447 |
| Unearned Revenue | - | - | - |
| Accrued Interest | 7,298 | - | 7,298 |
| Net cash provided (used) by operating activities | <u>1,060,956</u> | <u>-</u> | <u>1,060,956</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | | | |
|---|--------------------|----------|--------------------|
| Purchase of Building and Construction | (2,909,060) | - | (2,909,060) |
| Net cash provided (used) by investing activities | <u>(2,909,060)</u> | <u>-</u> | <u>(2,909,060)</u> |

CASH FLOWS FROM FINANCING ACTIVITIES

| | | | |
|---|------------------|----------|------------------|
| Mortgage Proceeds | - | - | - |
| Loan Cost Paid | - | - | - |
| Proceeds from PPP loan | - | - | - |
| Payments to Line of Credit | - | - | - |
| Construction Loan Proceeds | 2,114,746 | - | 2,114,746 |
| Mortgage Principal Payments | (104,689) | - | (104,689) |
| Net cash provided (used) by financing activities | <u>2,010,057</u> | <u>-</u> | <u>2,010,057</u> |

Net increase/(decrease) in cash and cash equivalents

| | | |
|----------------|----------|----------------|
| <u>161,953</u> | <u>-</u> | <u>161,953</u> |
|----------------|----------|----------------|

Cash and cash equivalents at beginning of the year

| | | |
|------------------|---------------|------------------|
| <u>1,061,809</u> | <u>26,737</u> | <u>1,088,546</u> |
|------------------|---------------|------------------|

Cash and cash equivalents at end of the year

| | | |
|---------------------|------------------|---------------------|
| <u>\$ 1,223,762</u> | <u>\$ 26,737</u> | <u>\$ 1,250,499</u> |
|---------------------|------------------|---------------------|

SUPPLEMENTAL DISCLOSURE

| | |
|--|-------------------|
| Cash paid for interest during the year | <u>\$ 172,640</u> |
|--|-------------------|

NONCASH TRANSACTIONS

| | |
|---|---------------------|
| Contributed kitchen food, Thrift store items and Miscellaneous Ministry Needs | <u>\$ 1,200,782</u> |
|---|---------------------|

The accompanying notes are an integral part of these financial statements.

**DOWNTOWN RESCUE MISSION, INC. &
DOWNTOWN RESCUE MISSION TITLE HOLDING CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Downtown Rescue Mission, Inc. (the “Mission”) & Downtown Rescue Mission Title Holding Corp. (the “Corporation”) are presented for a fiscal period using the accrual method of accounting. The specific policies concerning depreciation, amortization, and other areas of accounting where there is a choice among acceptable accounting alternatives followed by the Mission and the method of applying those policies which affect the statements of financial position, activities and changes in net assets, cash flows, and functional expenses are discussed in footnotes following this one. The Principles of Consolidation are stated in Note 7.

Nature of the Mission

The Mission provides direct assistance to homeless persons in Huntsville in two forms. Physical assistance is provided in the form of food, clothing, shelter, and small cash stipends to needy persons. Spiritual assistance is provided in the form of religious services, work therapy, and moral support in the effort to resist substance abuse or otherwise change in a positive direction. It is the hope of the Mission that a human being’s physical needs can be met while that person rebuilds his confidence and ability to function autonomously in Mission at large. If that person lives at the Mission, he is called a “resident”.

The support for the Mission comes from donations (either in cash or in kind) from the citizens and businesses of Huntsville and various religious organizations. Non-cash items not used directly in the Mission’s activities are generally liquidated through a “thrift” store. “Work therapy” is the term used to refer to the temporary labor service provided by residents to businesses and others for a fee. Work therapy has produced revenue, a large portion of which is paid out to the resident performing the work. The function of work therapy is to reinforce the work ethic in persons who may be otherwise unemployed.

Basis of Accounting

The financial statements of the Mission have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Under the provisions of the Audit and Accounting Guide for Not-for-Profit Organizations, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Mission and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Mission. The Mission’s board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Mission or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donated Equipment, Material, and Services

Substantial amounts of support in terms of goods are received from the community. Typically, these items are consumable. These items are reflected separately as increases to unrestricted donations and the appropriate program/line item expense category unless it is determined that the item should be capitalized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Donated Equipment, Material, and Services (continued)

The value placed on these non-cash items for recording purposes on the books is as follows: If these goods are received from a business, they are recorded at the value the business would have charged a normal customer. These items are recorded upon receipt and expensed. These types of goods are normally foodstuffs. If the goods are received from an individual, they are typically placed in the Thrift store for liquidation. They may, however, be recycled into the hands of a qualified needy person at no charge. At this time, the goods are recorded at the price the Thrift store had placed on the item for sale to any other customer. These items are primarily clothing, appliances, and other household goods.

Unrecorded donations - A substantial number of volunteers have donated significant amounts of their time in the organization's program and support services. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation. Contributions of items to be liquidated through the Thrift store are also not recorded until they are sold for the same reasons.

Support and Revenue Recognition

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). The Organization's revenue is largely grants and contributions. The adoption of ASU 2014-09 had no impact on revenue and support or net assets.

The Mission recognizes contributions as support and revenue when the pledged receivable is currently due. Unearned revenues are those revenues collected for specific events that have not occurred and prepaid expenses are expenditures for specific events that have not yet occurred. Contributions received are recorded as support with or without restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. All contributions are considered available for unrestricted use unless specially restricted by the donor or subject to other legal restrictions.

The Mission has elected to report donor-restricted contributions (including contributions of long-lived assets) whose restrictions are met in the same reporting period as support without restrictions.

Valuation of Thrift Store Inventory

Thrift store inventory is valued at the lower of cost (zero) or market (unknown). The typical inventory item is an item, which is no longer useful to its owner, and whose value is unknown until a buyer or beneficiary is found. New furniture items are purchased by the Mission at wholesale price and are sold in the thrift stores for a profit. The balance of this inventory at June 30, 2022 is \$50,073.

Cash and Cash Equivalents

Cash equivalents are defined as demand deposits or investments such as certificates of deposits, treasury bills, or money market accounts with an original maturity of three months or less.

Expenditures or receipts made on behalf of the Mission & Corporation by disbursing agents such as banks, attorneys, leasing companies, closing agents, and the like are considered to be cash transactions made by the Mission. Furthermore, consideration, which the Mission & Corporation are legally obligated to pay or receive, and which may, by mutual agreement, be satisfied by assets other than cash is considered to be a cash transaction.

Use of Estimates

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

| <u>Expense</u> | <u>Method of Allocation</u> |
|---|-----------------------------|
| Salaries and Payroll Taxes | Time and Effort |
| Office Expenses, Insurance, Printing, and Website | Square Footage |
| Depreciation and Donated Facilities | Square Footage |
| All Other | Time and effort |

Property and Equipment

Property and equipment may include assets acquired by non-cancelable leases or by gift, in addition to those acquired by purchase. The Mission's policy is to capitalize items acquired for over \$5,000, projects improving assets that are identifiable costing > \$5,000, or under some circumstances management may choose to capitalize items under the \$5,000 threshold.

If acquired by gift and the value is greater than \$5,000, the equipment or property is recorded at appraised value as evidenced by a qualified appraisal. If less than \$5,000, the recorded value is estimated by management.

Property and equipment are stated at the recorded value, less accumulated depreciation. Leasehold improvements (if any) are stated at cost, less accumulated amortization. Depreciation and amortization are provided at rates intended to distribute the cost over their estimated useful life.

Expenditures for maintenance and repair are charged to operations as incurred; expenditures for renewals and betterments are capitalized and written off by depreciation and amortization charges. Property retired or sold is removed from the asset and related accumulated depreciation accounts and any resulting profit or loss is reflected in the statement of operations.

Depreciation expense for the period ended June 30, 2022 for the Mission was \$425,452. Depreciation expense for the period ended June 30, 2022 for the Downtown Rescue Mission Title Holding Corporation was \$168,795.

Amortizable Costs

Capitalized permanent loan discount expense is being amortized on a straight line basis over a period of twenty-nine years, the life of the mortgage.

Provisions for Income Tax

The Downtown Rescue Mission, Inc. operates as a nonprofit organization under the guidelines of Section 501c(3) of the Internal Revenue Code and as such, is exempt from federal and state income taxes. Tax years after June 30, 2017 remain subject to examination by taxing authorities.

Advertising

Advertising costs are expensed as incurred. Total advertising expense for period ended June 30, 2022 was \$64,992.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE 2 – LONG-TERM DEBT AND CONSTRUCTION LOAN

The Mission had outstanding debt at June 30, 2022 in various mortgages and notes payable to creditors:

On November 15, 2016, the DRM Title Holding Corporation entered into a loan for \$7,500,000 to finance the construction of a Women’s and Children Shelter as part of a new market tax credit. \$5,481,500 is a receivable for the mission. The new market tax credit requires the mission to be operating as a homeless rescue mission 7 years from the creation of the \$7,500,000 loan. The remaining \$1,116,932 will be recognized as revenue with donor restrictions after new market tax credit requirements are met.

On October 6, 2018, the mission entered into a line of credit agreement with Synovus Bank for a maximum of \$500,000 for a 3.75% rate. The loan is payable in a monthly installment of interest. The balance at June 30, 2022 is \$0. The entire \$500,000 is available at June 30, 2022.

On September 28, 2020, the mission entered into a loan agreement with Synovus Bank for \$2,979,000 to refinance a previous loan and the purchase of the Madison store’s land for a 3.75% fixed rate loan due September 28, 2027. The loan is payable in a monthly installment of principal and interest in the amount of \$17,746. The balance at June 30, 2022 is \$2,791,487.

On May 11, 2021, the mission entered into a loan agreement with Synovus Bank for \$2,477,651 to finance the construction of the Madison store for a 3.75% fixed rate loan due May 11, 2028. Interest only payments are to be made for the first 18 months of the loan. Beginning December 11, 2022, the mission will pay 65 monthly principal and interest payments in the amount of \$12,812. The balance at June 30, 2022 is \$2,361,512.

Long-term debt consists of:

| | Balance June 30, 2022 |
|---|--------------------------|
| New Market Tax Credit Due 11/15/23 | \$7,500,000 |
| Synovus Bank, 1.75% fixed, due 5/22/2027, mortgage | 2,791,488 |
| Synovus Bank, 3.75 fixed, due 5/11/28 | 2,361,512 |
| Total Debt | <u>12,653,000</u> |
| Less: Current portion | <u>(155,867)</u> |
| Long-term debt | <u>\$12,497,133</u> |

Maturities of long-term debt are as follows:

| | Synovus Loan 1 | Synovus Loan 2 | New Market Tax Credit | Total |
|-------------------------|--------------------|--------------------|--------------------------|---------------------|
| 2023 | \$109,966 | \$45,901 | \$0 | \$155,867 |
| 2024 | 114,162 | 68,066 | 0 | 182,228 |
| 2025 | 118,517 | 70,663 | 0 | 189,180 |
| 2026 | 123,039 | 73,359 | 0 | 196,398 |
| 2027 | 127,733 | 76,158 | 0 | 203,891 |
| Thereafter | 2,198,071 | 2,027,365 | 7,500,000 | 11,725,436 |
| Total Long term debt | <u>\$2,791,488</u> | <u>\$2,361,512</u> | <u>\$7,500,000</u> | <u>\$12,653,000</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE 3 – THRIFT STORE REVENUE

The thrift stores are considered a program of the mission. The total revenue for thrift stores for the period were \$5,004,454 with expenditures of \$4,102,949.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

The Mission & Corporation are a party to certain legal actions arising in the ordinary course of the business. In management’s opinion, the Mission & Corporation have adequate legal defenses and/or insurance coverage respecting each of these actions and does not believe that they will materially affect the Mission & Corporation’s operations or financial position.

NOTE 5 – OPERATING LEASE

An operating lease was entered into for the Huntsville-East store with a lease term ending December 31, 2029. Monthly rent payments were \$13,500. Total lease payments in the current period ending June 30, 2022 are \$162,000.

An operating lease was entered into for the Albertville store with a lease term ending July 31, 2025 and with current monthly rent payments of \$8,171. Total lease payments for the Albertville store for the period ended June 30, 2022 were \$98,055.

An operating lease was entered into for the Madison store with a lease term ending of February 28, 2022 and with monthly rent payments of \$9,000 for July 2021 and \$10,000 until the end of the lease. Total lease payments for the Madison store for the period ended June 30, 2022 were \$79,000.

An operating lease was entered into for the clothes sorting warehouse with a lease term ending December 31, 2025 and with monthly rent payments of \$3,500 for total lease payments for period ended June 30, 2022 of \$42,000.

Future Lease Payments are as follows:

| Fiscal Year End | Huntsville- East | Albertville | Warehouse | Total |
|--------------------|---------------------|------------------|------------------|--------------------|
| 2023 | \$162,000 | \$98,055 | \$42,000 | \$302,055 |
| 2024 | 162,000 | 98,055 | 42,000 | 302,055 |
| 2025 | 162,000 | 98,055 | 42,000 | 302,055 |
| 2026 | 171,720 | 8,171 | 21,000 | 200,891 |
| 2027 | 181,440 | 0 | 0 | 181,440 |
| Thereafter | 453,600 | 0 | 0 | 453,600 |
| Total | \$1,292,760 | \$302,336 | \$147,000 | \$1,742,096 |

NOTE 6 – RESIDENT SAVINGS ACCOUNTS

The Mission maintains a savings account for program beneficiaries. These deposits are held for the individual discretion of the beneficiaries and a portion is held for the graduate ministry specifically. The balance of these accounts and the related liability are as follows:

| | |
|-----------------------------|----------------------|
| | <u>June 30, 2022</u> |
| Graduate Ministry Funds | \$2,886 |
| Resident Savings | <u>1,972</u> |
| Total | <u>\$4,858</u> |
| Deposits held for Residents | <u>\$(1,972)</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE 7 – DRM TITLE HOLDING CORPORATION PRINCIPLES OF CONSOLIDATION

The financial statements are consolidated for Downtown Rescue Mission, Inc. and DRM Title Holding Corporation for 2022. Downtown Rescue Mission Inc. has significant influence over DRM Title Holding Corporation. The mission has the power to participate in the financial and operating policies of the Title Holding Corporation. The Mission has significant representation on the supervisory body of the Title Holding Corporation. For these reasons the financial statements were consolidated for these entities.

NOTE 8 – PROPERTY AND EQUIPMENT

The following schedule details the property and equipment for the Mission and Corporation.

| Description | 6/30/2021 Balance | Amortization Expense | Added Loan costs | 6/30/2022 Balance |
|---------------------------------|----------------------|-------------------------|---------------------|----------------------|
| Loan Costs, net of amortization | \$ <u>467,910</u> | \$ <u>(21,136)</u> | \$ <u>0</u> | \$ <u>446,772</u> |

| | 6/30/2021 Balance | Additions | Deletions | 6/30/2022 Balance |
|--------------------------|----------------------|---------------------|-------------|----------------------|
| Land & Buildings | \$ 18,240,160 | \$ 2,843,991 | \$ 0 | \$ 21,084,151 |
| Vehicles | 275,815 | 7,778 | 0 | 283,593 |
| Furniture & Equipment | 520,803 | 57,291 | 0 | 578,094 |
| Accumulated depreciation | <u>(4,735,734)</u> | <u>(594,247)</u> | <u>0</u> | <u>(5,329,981)</u> |
| Total | \$ <u>14,301,044</u> | \$ <u>2,314,813</u> | \$ <u>0</u> | \$ <u>16,615,857</u> |

NOTE 9 – LIQUIDITY

The Mission’s financial assets available within one year of the balance sheet date for general expenditure are as follows:

| | |
|---------------------------|--------------|
| Cash and cash equivalents | \$1,250,499 |
| Accounts Receivable | 0 |
| Prepaid Insurance | <u>6,261</u> |
| Total | \$1,256,760 |

The Mission’s financial assets have been reduced by amounts not available for general use because of donor imposed restrictions within one year of the balance sheet date.

As part of The Mission’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

NOTE 10– RISK AND UNCERTAINTY- COVID-19

The World Health Organization declared the COVID-19 outbreak a public health emergency on January 30, 2020. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. Anticipating the impact of the pandemic will make budget preparation difficult. At this time, an estimate of the financial statement effect of the event cannot be made.

NOTE 11 – SPECIAL EVENTS

Special events generate revenue for the Mission as well as raise awareness about the Organization's mission. Some events are annual and some are incidental to the Organization's central activities and do not happen regularly. Incidental events are recorded net in the accompanying Statement of Activities.

Changes in net assets without donor restrictions:

Contributions:

| | |
|-------------------|-------------------------|
| Glow Run | \$42,086 |
| Shoot for Shelter | 34,494 |
| Swing for Shelter | <u>54,025</u> |
| Total | <u>\$130,605</u> |

Expenses:

| | |
|-------------------|------------------------|
| Glow Run | \$37,160 |
| Shoot for Shelter | 30,505 |
| Swing for Shelter | <u>23,982</u> |
| Total | <u>\$91,647</u> |

Increases in net assets without donor restrictions **\$38,958**

NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLE

The American Institute of Certified Public Accountants (AICPA) Auditing Standards Board issued new auditing standards – Statements on Auditing Standards (SAS) 134-140 – that impact several aspects of our audit including modifying the auditor's report and communication to those charged with governance as well as requiring additional audit procedures over related party relationships and significant unusual transactions. These new pronouncements are effective for entities with periods ending on or after December 15, 2021. Therefore, these changes apply and have been implemented as of June 30, 2022. This implementation had no impact on change in net assets or net assets.

The organization adopted Accounting Standards Update (ASU) 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from the contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity had received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosures.

NOTE 13 – CONTRIBUTIONS OF NONFINANCIAL ASSETS

The Mission reports donated goods and services meeting recognition criteria under U.S. GAAP as public support and as expense, based on fair values. All contributions of nonfinancial assets were used for program activities. The Mission did not monetize any contributed nonfinancial assets and unless otherwise noted, contributed nonfinancial assets did not have donor restrictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

NOTE 13 – CONTRIBUTIONS OF NONFINANCIAL ASSETS- CONTINUED

As of June 30, 2022, In-kind contributions included in the statement of activities are comprised of the following:

| | |
|---|---------------------|
| Main Campus Clothing and Supplies Donations | \$ 765,050 |
| Main Campus Food Donations | <u>435,731</u> |
| Total | <u>\$ 1,200,782</u> |

NOTE 14- NET ASSETS – WITH DONOR RESTRICTIONS

Donor restricted net assets consist for the following purposes as of December 31, 2022:

| | |
|---|-------------------|
| Subject to expenditure for specified purpose: | |
| Kitchen Remodel | \$ 89,461 |
| Debi's House Sewer | 47 |
| Chapel HVAC | 19,297 |
| Laverne House | 5,279 |
| Gym Floor | 200 |
| | <u>\$ 114,284</u> |

Releases from Donor Restricted Net Assets for December 31, 2022 are as follows:

| | |
|---|-------------------|
| Subject to expenditure for specified purpose: | |
| Portable Baptistry | \$ 3,143 |
| Kitchen Remodel | 425,040 |
| Debi's House Sewer | 12,953 |
| Optic Center | 25,746 |
| Chapel HVAC | 15,003 |
| Laverne House | 4,720 |
| Gym Floor | 1,500 |
| | <u>\$ 488,105</u> |

NOTE 15- PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made for \$23,114 to remove old outstanding checks and deposits from the Synovus bank account.

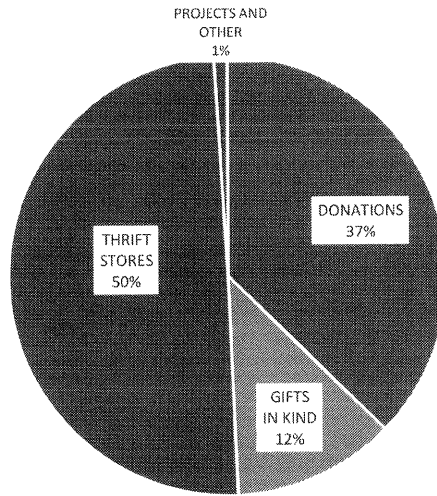
NOTE 16- SUBSEQUENT EVENTS

The date through which subsequent events have been evaluated is April 15, 2023. The consolidated financial statements were available to be issued at that time.

**DOWNTOWN RESCUE MISSION, INC.
 SUPPLEMENTAL CHART OF REVENUES & EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2022**

Support & Revenues

| | | |
|--------------------|----|-------------------|
| Donations | \$ | 3,764,840 |
| Gifts in Kind | | 1,200,782 |
| Thrift Stores | | 5,004,454 |
| Projects and other | | <u>98,879</u> |
| | \$ | <u>10,068,955</u> |



Expenditures, Excluding Interest Expense

| | | |
|------------------|----|------------------|
| Food and Shelter | \$ | 4,083,379 |
| Programs | | 4,033,233 |
| G & A | | 300,915 |
| Fundraising | | <u>1,354,296</u> |
| | \$ | <u>9,771,823</u> |

