

**DOWNTOWN RESCUE MISSION, INC. &
DOWNTOWN RESCUE MISSION TITLE HOLDING CORP.
CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2023**

MERCER & ASSOCIATES, P.C.

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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 consolidated statement of financial position as of June 30, 2023, and the related consolidated 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, 2023, 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.

Emphasis of a Matter

As discussed in Note 10 to the financial statements, in 2023, the organization adopted FASB ASC 842, *Leases*. Our opinion is not modified with respect to this matter.

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.

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.

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 17 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

January 15, 2024

**DOWNTOWN RESCUE MISSION, INC. &
DOWNTOWN RESCUE MISSION TITLE HOLDING CORP.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023**

ASSETS	Downtown Rescue Mission, Inc.	Downtown Rescue Mission Title Holding Corp.	Consolidated Total
Current Assets			
Cash and Cash Equivalents	\$ 980,652	\$ -	\$ 980,652
Resident Savings	1,972	-	1,972
Prepaid Insurance	6,118	-	6,118
Accounts Receivable	607,762	-	607,762
Total Current Assets	1,596,504	-	1,596,504
Property and Equipment			
Land & Buildings	21,640,362	-	21,640,362
Vehicles	319,665	-	319,665
Furniture and Equipment	608,308	-	608,308
Right-of-use Asset - Operating Leases (net of Accumulated Amortization)	1,281,038	-	1,281,038
Accumulated Depreciation	(6,037,669)	-	(6,037,669)
Total Property and Equipment	17,811,704	-	17,811,704
Other Assets			
Inventory	55,628	-	55,628
Investments	999,433	-	999,433
Total Other Assets	1,055,061	-	1,055,061
TOTAL ASSETS	\$ 20,463,269	\$ -	\$ 20,463,269
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts Payable	\$ 400,180	\$ -	\$ 400,180
Deposits for Residents	1,972	-	1,972
Accrued Salaries	76,738	-	76,738
Accrued Interest	15,929	-	15,929
Accrued Vacation Payable	151,916	-	151,916
Current Portion of Lease Liability- Operating Leases	253,893	-	253,893
Current Portion of Long-Term Debt	193,657	-	193,657
Total current liabilities	1,094,285	-	1,094,285
Long-Term Liabilities			
Noncurrent Portion of Lease Liability- Operating Leases	1,054,361	-	1,054,361
Long-Term Debt - Less Current Portion	4,839,630	-	4,839,630
Construction Loan	0	-	0
Debt Issuance Costs, Net of Accumulated Amortization of \$2,078	(22,862)	-	(22,862)
Total Long-Term Liabilities	5,871,129	-	5,871,129
Total liabilities	6,965,414	-	6,965,414
Net Assets			
Net Assets Without Donor Restrictions/(Deficit)	13,254,235	-	13,254,235
Net Assets With Donor Restrictions	243,620	-	243,620
Total Net Assets	13,497,855	-	13,497,855
TOTAL LIABILITIES AND NET ASSETS	\$ 20,463,269	\$ -	\$ 20,463,269

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, 2023**

<u>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</u>	Downtown Rescue Mission, Inc.	Downtown Rescue Mission Title Holding Corp.	Consolidated Total
SUPPORT AND REVENUE			
Donations and Grants	\$ 3,513,843	\$ -	\$ 3,513,843
Contributions In Kind - Misson	1,067,702	-	1,067,702
Thrift Store Proceeds	5,628,766	-	5,628,766
Charges To Residents	92,116	-	92,116
Fundraising Events Income Net of Expense (\$68,162)	22,253	-	22,253
Employee Retention Credit	2,203,149	-	2,203,149
New Market Tax Credit	1,116,932	-	1,116,932
Miscellaneous	434,558	-	434,558
TOTAL SUPPORT AND REVENUE	<u>14,079,319</u>	<u>-</u>	<u>14,079,319</u>
 Release of Donor Restricted Assets, Expended	 106,006	 -	 106,006
Release of Donor Restricted Assets to Purchase Assets and Loan Costs	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT, REVENUE & RELEASES	<u>14,185,325</u>	<u>-</u>	<u>14,185,325</u>
FUNCTIONAL EXPENSES			
Program Services			
Food and Shelter Program	4,206,796	-	4,206,796
Thrift Store Program	4,446,827	-	4,446,827
Total program services	<u>8,653,623</u>	<u>-</u>	<u>8,653,623</u>
Support Services			
Fundraising	1,520,781	-	1,520,781
Administrative & General	789,863	-	789,863
Total Support Services	<u>2,310,645</u>	<u>-</u>	<u>2,310,645</u>
TOTAL EXPENSES	<u>10,964,268</u>	<u>-</u>	<u>10,964,268</u>
OTHER INCOME (EXPENSES)			
Interest Income	607	-	607
Investment Earnings and Expenses	113	-	113
Unrealized Gain/(Loss)	(679)	-	(679)
Realized Gain/(Loss)	0	-	0
Interest Expense	(266,610)	-	(266,610)
Gain (loss) on sale of asset	(9,561)	-	(9,561)
TOTAL OTHER INCOME (EXPENSES)	<u>(276,130)</u>	<u>-</u>	<u>(276,130)</u>
 INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	 <u>2,944,927</u>	 <u>-</u>	 <u>2,944,927</u>
<u>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</u>			
DONOR RESTRICTED SUPPORT			
Donations	85,342	-	85,342
NET ASSETS RELEASED FROM DONOR RESTRICTIONS			
Release of Donor Restricted Assets, Loan forgiveness	-	7,500,000	7,500,000
Release of Donor Restricted Assets, Transfer of Building to DRM Inc.	-	(5,907,688)	(5,907,688)
Release of Donor Restricted Assets, Interest Expense	-	(353,087)	(353,087)
Release of Donor Restricted Assets, Satisfaction of Purpose	(106,006)	(26,740)	(132,746)
Release of Donor Restricted Assets, Depreciation & Amortization Expense	-	(186,450)	(186,450)
	<u>-</u>	<u>(186,450)</u>	<u>(186,450)</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(20,664)</u>	<u>1,026,035</u>	<u>1,005,371</u>
INCREASE IN NET ASSETS	2,924,263	1,026,035	3,950,298
PRIOR PERIOD ADJUSTMENT (SEE NOTE 16)	3,919	-	3,919
Net Assets, Beginning	<u>10,569,673</u>	<u>(1,026,035)</u>	<u>9,543,638</u>
NET ASSETS, ENDING	<u>\$ 13,497,855</u>	<u>\$ -</u>	<u>\$ 13,497,855</u>

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, 2023

	Program Services			Support Services			Total All Expenses
	Food and Shelter Program	Thrift Store	Total	General and Administrative	Fund Raising	Total	
Advertising and Public Relations	\$ 239	\$ 66,323	\$ 66,562	\$ 94	\$ 48,928	\$ 49,022	\$ 115,584
Bank Fees & Service Charges	2,471	88,936	91,407	4,655	31,191	35,846	127,253
Board Expense	852	0	852	0	0	0	852
Broker Commission	0	0	0	12,141	0	12,141	12,141
Building Rent	0	283,875	283,875	0	0	0	283,875
Depreciation	366,164	210,522	576,686	0	0	0	576,686
Donor Relations	165	1,188	1,353	83	13,655	13,738	15,091
Dues and Memberships	3,896	0	3,896	15,474	2,345	17,819	21,715
Employee Benefits - Health Insurance	380,952	283,519	664,471	49,152	58,372	107,524	771,995
Employee Benefits - Workmen's Comp	23,880	6,861	30,741	834	557	1,391	32,132
Employee Benefits - Retirement	30,230	12,956	43,186	8,637	2,159	10,797	53,983
Employee Relations	5,600	7,374	12,974	3,289	2,356	5,645	18,619
Equipment	111,311	83,126	194,437	11,975	47,569	59,544	253,981
Events	5,507	2,728	8,235	5,638	7,264	12,902	21,137
ERC Service Expense	0	0	0	275,946	0	275,946	275,946
Grant Writer	0	0	0	0	21,607	21,607	21,607
Hazard and Liability Insurance	172,280	57,518	229,798	9,079	8,791	17,870	247,668
Title holding payments	0	0	0	83,250	0	83,250	83,250
Kitchen and Food Supplies	40,268	23,361	63,629	0	772	772	64,401
Licenses & Permits	52	5,734	5,786	437	0	437	6,223
Maintenancce, Building & Grounds	102,785	37,488	140,273	6,902	773	7,675	147,948
Miscellaneous Expense	2,718	3,342	6,060	232	1,600	1,832	7,892
Payroll Taxes	100,671	181,208	281,879	16,779	36,913	53,691	335,570
Postage	431	0	431	532	740	1,272	1,703
Printing and Reproduction	0	0	0	0	728,667	728,667	728,667
Professional Fees	0	0	0	40,015	9,189	49,204	49,204
Program Expenses	65,578	0	65,578	0	0	0	65,578
Purchases	0	299,330	299,330	0	0	0	299,330
Recruiting	0	2,772	2,772	1,094	8,274	9,368	12,140
Salaries	1,254,148	2,257,467	3,511,615	209,025	459,854	668,879	4,180,494
Supplies	80,595	84,176	164,771	2,820	2,060	4,880	169,651
Telephone and Internet	32,613	82,605	115,218	6,400	6,483	12,883	128,101
Training and Conventions	12,548	5,094	17,642	8,772	1,136	9,908	27,550
Useage of Contributions In-Kind	1,029,002	0	1,029,002	0	0	0	1,029,002
Utilities	230,623	146,946	377,569	13,263	12,096	25,359	402,928
Vehicle Maintenance	94,790	88,686	183,476	311	4,395	4,706	188,182
Waste Disposal	56,426	123,693	180,119	3,035	3,035	6,070	186,189
TOTAL FUNCTIONAL EXPENSES	\$ 4,206,796	\$ 4,446,827	\$ 8,653,623	\$ 789,863	\$ 1,520,781	\$ 2,310,645	\$ 10,964,268

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, 2023**

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	\$ 2,924,263	\$ 1,026,035	\$ 3,950,298
Adjustment to reconcile net income to net cash provided (used) by operating activities:			
Prior Period Adjustment	3,919	-	3,919
Depreciation	576,686	168,795	745,481
Amortization of Loan Costs	3,482	17,654	21,136
Amortization of Right-of-Use assets	257,832	-	257,832
Repayment of lease liability-operating leases	(250,056)	-	(250,056)
Unrealized (gain)/loss on investments	679	-	679
Realized (gain)/loss on investments	-	-	-
Investment Fees	-	-	-
Interest and Dividends	(113)	-	(113)
(Gain)/loss on sale of asset	9,561	-	9,561
Transfer of Property to DRM Inc. due to DRMTHC closure	(5,907,692)	5,907,692	-
Loan Forgiveness	-	(7,500,000)	(7,500,000)
Loan Cost Removed	49,688	353,087	402,775
Decrease (increase) in:			
Resident Savings	2,886	-	2,886
Accounts Receivable	(607,762)	-	(607,762)
Prepaid Expenses	143	-	143
Grants Receivable	-	-	-
USBCDC Receivable	5,481,500	-	5,481,500
Inventory	(5,555)	-	(5,555)
Right-of-use Asset- Operating Leases	1,558,310	-	1,558,310
Increase (decrease) in:			
Accounts Payable	86,043	-	86,043
Net Deposits	-	-	-
Payroll Taxes Payable	-	-	-
Accrued Payroll	20,795	-	20,795
Accrued Vacation	8,541	-	8,541
Unearned Revenue	(1,116,932)	-	(1,116,932)
Lease Liability- Operating Lease	(1,538,870)	-	(1,538,870)
Accrued Interest	(414)	-	(414)
Net cash provided (used) by operating activities	<u>1,556,934</u>	<u>(26,737)</u>	<u>1,530,197</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Investments	(1,000,000)	-	(1,000,000)
Purchase of Building and Construction	(680,332)	-	(680,332)
Net cash provided (used) by investing activities	<u>(1,680,332)</u>	<u>-</u>	<u>(1,680,332)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Mortgage Proceeds	39,992	-	39,992
Payments to Line of Credit	-	-	-
Construction Loan Proceeds	-	-	-
Mortgage Principal Payments	(159,704)	-	(159,704)
Net cash provided (used) by financing activities	<u>(119,712)</u>	<u>-</u>	<u>(119,712)</u>
Net increase/(decrease) in cash and cash equivalents	<u>(243,110)</u>	<u>(26,737)</u>	<u>(269,847)</u>
Cash and cash equivalents at beginning of the year	<u>1,223,762</u>	<u>26,737</u>	<u>1,250,499</u>
Cash and cash equivalents at end of the year	<u>\$ 980,652</u>	<u>\$ 0</u>	<u>\$ 980,652</u>
SUPPLEMENTAL DISCLOSURE			
Cash paid for interest during the year	\$ <u>267,024</u>		
NONCASH TRANSACTIONS			
Contributed kitchen food, Thrift store items and Miscellaneous Ministry Needs	\$ <u>1,067,702</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, 2023**

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 unemployable.

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, 2023 is \$55,628.

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, 2023 for the Mission was \$576,686. Depreciation expense for the period ended June 30, 2023 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, 2023 was \$115,584.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE 2 – LONG-TERM DEBT

The Mission had outstanding debt at June 30, 2023 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 was a receivable for the mission. The new market tax credit required the mission to be operating as a homeless rescue mission 7 years from the creation of the \$7,500,000 loan. The unearned revenue of \$1,116,932 has been recognized in the current fiscal year as revenue with donor restrictions since the new market tax credit requirements were 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, 2023 is \$0. The entire \$500,000 is available at June 30, 2023.

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 \$103,887. The balance at June 30, 2023 is \$2,682,763.

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, 2023 is \$2,318,060.

On December 23, 2022, the mission entered into a loan agreement with Kubota for \$23,285 to finance the purchase of a tractor and front loader for a 0% fixed rate loan due November 23, 2026. Beginning December 23, 2022, the mission will pay 48 monthly principal and interest payments in the amount of \$485. The balance at June 30, 2023 is \$19,889.

On December 8, 2022, the mission entered into a loan agreement with Redstone Federal Credit Union for \$16,707 to finance the purchase of a 2013 Ford F-150 for a 4.5% fixed rate loan due December 15, 2025. Beginning December 8, 2022, the mission will pay 36 monthly principal and interest payments in the amount of \$510. The balance at June 30, 2023 is \$12,575.

Long-term debt consists of:

	Balance June 30, 2023
New Market Tax Credit Due 11/15/23	\$0
Synovus Bank, 1.75% fixed, due 5/22/27, mortgage	2,682,763
Synovus Bank, 3.75 fixed, due 5/11/28	2,318,060
KUBOTA 0% fixed, due 11/23/26	19,889
Redstone 4.5%, due 12/15/25	12,575
Total Debt	5,033,287
Less: Current portion	(193,657)
Long-term debt	\$4,839,630

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE 2 – LONG-TERM DEBT- CONTINUED

Maturities of long-term debt are as follows:

	Synovus Loan 1	Synovus Loan 2	Redstone Federal	Kubota	Total
2024	\$114,162	\$68,066	\$5,609	\$5,820	\$193,657
2025	118,517	70,663	5,867	5,820	200,867
2026	123,039	73,359	1,099	5,820	203,317
2027	127,733	76,158	0	2,429	206,319
2028	2,199,312	2,029,814	0	0	4,229,127
Thereafter	0	0	0	0	0
Total	\$2,682,763	\$2,318,060	\$12,575	\$19,889	\$5,033,287
Long term debt					

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 \$5,628,766 with expenditures of \$4,446,827.

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement dates. A fair value measurement assumes that the transaction to see the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value in three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access.

Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 are unobservable inputs for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Foundation’s own data.)

The following table presents the Center’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2023:

	Level 1	Level 2	Level 3	Total
Investment	\$ 999,433	\$ 0	\$ 0	\$ 999,433
Totals	\$ 999,433	\$ 0	\$ 0	\$ 999,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE 5 – 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 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, 2023</u>
Graduate Ministry Funds	\$2,758
Resident Savings	<u>1,972</u>
Total	<u>\$4,730</u>
 Deposits held for Residents	 <u>\$(1,972)</u>

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 2023. 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. The DRM Title Holding Corporation was closed as of June 30, 2023 and all remaining assets and liabilities have been transferred to Downtown Rescue Mission, Inc.

NOTE 8– PROPERTY AND EQUIPMENT

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

Description	6/30/2022 Balance	Amortization Expense	Removed Loan costs due to DRM Title Holding Corp. closure	6/30/2023 Balance
Loan Costs, net of amortization	\$ <u>446,773</u>	\$ <u>(21,136)</u>	\$ <u>(402,775)</u>	\$ <u>22,862</u>

	6/30/2022 Balance	Additions	Deletions	6/30/2023 Balance
Land & Buildings	\$ 21,084,151	\$ 556,211	\$ 0	\$ 21,640,362
Vehicles	283,593	93,907	(57,835)	319,665
Furniture & Equipment	578,094	30,214	0	608,308
Right-of-use Asset- Operating Leases	<u>1,538,870</u>	<u>0</u>	<u>(257,832)</u>	<u>1,281,038</u>
Accumulated depreciation	<u>(5,329,981)</u>	<u>(745,481)</u>	<u>37,793</u>	<u>(6,037,669)</u>
Total	\$ <u>18,154,727</u>	\$ <u>(65,149)</u>	\$ <u>(277,874)</u>	\$ <u>17,811,704</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

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	\$980,652
Accounts Receivable	607,762
Prepaid Insurance	<u>6,118</u>
Total	<u>\$1,594,532</u>

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.

NOTE 10 - CHANGE IN ACCOUNTING PRINCIPLE

In 2023, The Organization adopted FASB ASC 842, Leases, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. As a result of implementing ASC 842, the Organization recognized a right-of-use asset of \$1,538,870 and a lease liability totaling \$1,558,310. There was a prior period of adjustment of Net Assets without donor restrictions for the year ending June 30, 2023 for \$19,440.

Statement on Auditing Standards (SAS) No. 142 takes effect for audits of financial statements for periods ending on or after December 15, 2022. SAS No. 142 explains what constitutes audit evidence in an audit of financial statements and sets out attributes of information that are taken into account by the auditor when evaluating information to be used as audit evidence. The adoption of SAS No. 142 had no effect on Net Assets.

NOTE 11 – 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.

As of June 30, 2023, In-kind contributions included in the statement of activities are comprised of the following:

Main Campus Clothing and Supplies Donations	\$ 567,618
Vehicles	38,700
Main Campus Food Donations	<u>461,384</u>
Total	<u>\$ 1,067,702</u>

NOTE 12– CONCENTRATION OF CREDIT RISK FROM DEPOSITS

The Federal Deposit Insurance Corporation insures individual depositors up to \$250,000 for checking and savings instruments per bank. At June 30, 2023 the Mission’s cash balances totaled \$1,003,381. The Mission’s cash balance of \$706,618 was not insured at June 30, 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

NOTE 13- NET ASSETS – WITH DONOR RESTRICTIONS

Donor restricted net assets consist for the following purposes as of June 30, 2023:

Subject to expenditure for specified purpose:	
Kitchen Remodel	\$ 188,397
Debi's House Sewer	47
Optic Center	47,002
Laverne House	2,053
Gym Floor	200
Graduate Scholarship	2,658
Amy Grant Trip	2,760
Redstone Harley Davidson Food	503
	\$ <u>243,620</u>

Releases from Donor Restricted Net Assets for June 30, 2023 are as follows:

Releases for specified purpose:	
Kitchen Remodel	\$ 52,774
Chapel HVAC	19,297
Optic Center	6,998
Laverne House	3,226
Fall Festival 2022	1,000
Graduate Scholarship	7,788
Amy Grant Trip	2,239
Gazebo- Owen's House	8,785
Independence Day 2023	3,300
Redstone Harley Davidson Food	599
	\$ <u>106,006</u>

NOTE 14 – LEASE OBLIGATIONS

FASB ASC 842, *Leases* issued in February 2016, is effective for fiscal years beginning after December 15, 2021. FASB ASC 842 requires lessees to determine if leases are classified as Operating Leases or Finance Leases. Regardless of classification, lessees must recognize an intangible right-of-use asset and lease liability. The right-of-use asset represents Mission's right to use the underlying asset for the lease term, and the lease liability represents the organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term. The right-of-use assets are amortized over the lease term. For leases classified as an Operating Lease, lease payments are recognized as rent expense on a straight-line basis over the lease term. For leases classified as a Finance Lease, lease payments are recognized as a reduction in the lease liability and interest expense. A prior period adjustment for the year ending June 30, 2023 was required to record leases that had previously been entered into (See Note 16).

The Organization has three Operating Leases in effect that are subject to this standard. Details of the leases are as follows:

Lease for Albertville store payable in monthly installments of \$6,008 for 60 months commencing on August 1, 2020

Lease for Huntsville store payable in monthly installments of \$13,500 for 72 months & \$15,120 for 48 months commencing on 1/1/2020

Lease for Warehouse space payable in monthly installments of \$3,500 for 72 months commencing on January 1, 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

NOTE 14 – LEASE OBLIGATIONS- CONTINUED

The following table presents The Organization’s leased asset balances as of June 30, 2023:

	Gross Asset Balance		Accumulated Amortization		Net Asset Balance
Albertville Store	\$ 356,887	\$	207,346	\$	149,541
Huntsville Store	1,532,195		503,466		1,028,729
Warehouse Space	239,961		137,193		<u>102,768</u>
Total					<u>1,281,038</u>

Lease activity for the year ended June 30, 2023 was as follows:

	Balance at July 1, 2022		Lease Financing		Principal Payments		Balance at June 30, 2023
Albertville Store	\$ 220,868	\$	0	\$	(71,327)	\$	149,541
Huntsville Store	1,194,752		0		(138,807)		1,055,945
Warehouse Space	142,690		0		(39,922)		102,768
Current Lease Liability							<u>(253,893)</u>
Long Term Lease Liability						\$	<u>1,054,361</u>

Lease principal and interest payments for the lease commitments are as follows:

	Albertville Store		Huntsville Store		Warehouse Space	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$71,620	\$479	\$141,679	\$20,321	\$40,594	\$1,406
2025	71,915	184	144,611	17,389	41,277	723
2026	6,006	2	157,365	14,355	20,898	102
2027	0	0	170,484	10,956	0	0
2028	0	0	174,012	7,428	0	0
Thereafter	0	0	267,793	4,367	0	0

The lease liability commitments related to the lease are as follows:

2024	\$ 253,893
2025	257,803
2026	184,269
2027	170,484
2028	174,012
Thereafter	267,793

The Organization does not report right-of-use assets and lease liabilities for short-term leases (leases with a term of 12 months or less and month-to-month leases). The lease payments for short-term leases are reported as rent expense.

Rent expense for the year ended June 30, 2023 was \$283,875.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

NOTE 15 – EMPLOYEE RETENTION CREDIT

The CARES Act provides an Employee Retention Credit (ERC), which is a refundable tax credit against certain employment taxes. During the years ended June 30, 2023, the Mission recorded \$2,203,150 related to the ERC which are included as “Employee Retention Credit” on the Statements of Activities. Of which, \$589,048 is recorded in accounts receivable. The mission recorded \$275,946 in expenses corresponding to ERC filings and procurement.

Laws and regulations concerning government programs, including the Employee Retention Credit established by the CARES Act, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Mission’s claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Mission.

NOTE 16- PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made for \$23,359 to recognize vehicles purchased and gifted in prior years with associated depreciation that were not added to the depreciation schedule in prior years.

A prior period adjustment was made for \$19,440 to implement FASB ASC 842, *Leases* standard.

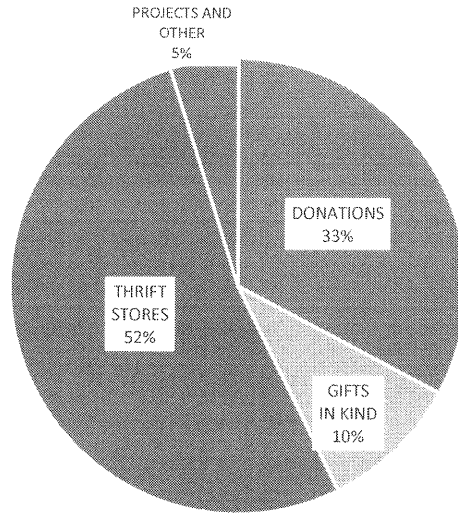
NOTE 17- SUBSEQUENT EVENTS

The date through which subsequent events have been evaluated is January 15, 2024. 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, 2023

Support & Revenues

Donations	\$ 3,513,843
Gifts in Kind	1,067,702
Thrift Stores	5,628,766
Projects and other	<u>526,674</u>
	<u>\$ 10,736,985</u>



Expenditures, Excluding Interest Expense

Food and Shelter	\$ 4,206,796
Programs	4,446,827
G & A	789,863
Fundraising	<u>1,520,781</u>
	<u>\$ 10,964,268</u>

