

THE RESCUE MISSION

Audited Financial Statements and
Supplementary Information and Reports
on Compliance and Internal Control

June 30, 2017

THE RESCUE MISSION

Audited Financial Statements and Supplementary Information and
Reports on Compliance and Internal Control

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1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

Independent Auditor's Report

Board of Directors
The Rescue Mission
Tacoma, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of The Rescue Mission (a nonprofit organization) (the "Mission"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Mission's preparation and fair presentation of the 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 Mission'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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Rescue Mission as of June 30, 2017, and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

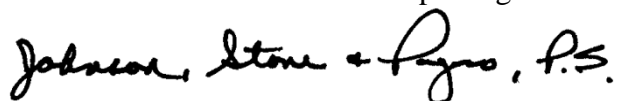
The financial statements of The Rescue Mission as of June 30, 2016, were audited by other auditors whose report dated September 27, 2016, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2017 on our consideration of The Rescue Mission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Rescue Mission's internal control over financial reporting and compliance.



JOHNSON, STONE & PAGANO, P.S.

September 25, 2017

AUDITED FINANCIAL STATEMENTS

THE RESCUE MISSION

STATEMENT OF FINANCIAL POSITION

June 30, 2017 with Comparative Totals for 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 3,343,836	\$ 1,532,333
Grants receivable	309,927	348,622
Other receivables	84,943	463,234
Prepaid expenses	6,898	15,740
Beneficial interest in trusts	180,156	172,222
Land, buildings and equipment, net	<u>14,615,480</u>	<u>15,348,892</u>
TOTAL ASSETS	\$ <u>18,541,240</u>	\$ <u>17,881,043</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	258,845	241,446
Long-term debt	<u>10,866,022</u>	<u>10,889,083</u>
Total Liabilities	11,124,867	11,130,529
NET ASSETS		
Unrestricted	2,964,306	1,936,717
Temporarily restricted	4,120,383	4,490,047
Permanently restricted	<u>331,684</u>	<u>323,750</u>
Total Net Assets	<u>7,416,373</u>	<u>6,750,514</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>18,541,240</u>	\$ <u>17,881,043</u>

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

THE RESCUE MISSION

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017 with Comparative Totals for 2016

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
<u>SUPPORT AND REVENUE</u>					
PUBLIC SUPPORT					
Donations	\$ 3,155,381			\$ 3,155,381	\$ 2,630,936
Foundations	525,773	\$ 88,308		614,081	417,675
Wills and trusts	807,402			807,402	527,883
United Way	75,950			75,950	118,555
Total Public Support	4,564,506	88,308		4,652,814	3,695,049
GRANTS FROM GOVERNMENTAL AGENCIES	973,229			973,229	1,026,617
OTHER REVENUE					
Rental income	429,858			429,858	467,916
Miscellaneous	1,107,723			1,107,723	326,253
Interest income	28,042			28,042	24,686
Loss on sale of assets	(148,226)			(148,226)	
Unrealized gain (loss) from trusts			\$ 7,934	7,934	(12,916)
Total Other Revenue	1,417,397		7,934	1,425,331	805,939
Net Assets Released from Restrictions	457,972	(457,972)			
TOTAL SUPPORT AND REVENUE	<u>\$ 7,413,104</u>	<u>\$ (369,664)</u>	<u>\$ 7,934</u>	<u>\$ 7,051,374</u>	<u>\$ 5,527,605</u>

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

THE RESCUE MISSION

STATEMENT OF ACTIVITIES (Continued)

Year Ended June 30, 2017 with Comparative Totals for 2016

	2017			Total	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<u>EXPENSES</u>					
Program services					
Emergency services	\$ 706,422			\$ 706,422	\$ 819,541
Family shelter	1,228,861			1,228,861	1,165,025
Youth	267,919			267,919	
Good Neighbor Café	671,375			671,375	664,271
Challenge Learning Services	387,683			387,683	341,035
New Life Program	577,674			577,674	477,968
Tyler Family Housing	650,624			650,624	758,750
Search and Rescue	75,301			75,301	
Counseling services	148,412			148,412	57,217
Affordable Housing	400,030			400,030	309,440
Donation center	222,347			222,347	215,316
Total Program Services	5,336,648			5,336,648	4,808,563
Support services					
Development	582,409			582,409	432,948
Management and general	466,458			466,458	457,209
Total Support Services	1,048,867			1,048,867	890,157
Total Expenses	6,385,515			6,385,515	5,698,720
CHANGE IN NET ASSETS	1,027,589	\$ (369,664)	\$ 7,934	665,859	(171,115)
Net Assets at Beginning of Year	1,936,717	4,490,047	323,750	6,750,514	6,921,629
NET ASSETS AT END OF YEAR	\$ 2,964,306	\$ 4,120,383	\$ 331,684	\$ 7,416,373	\$ 6,750,514

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

THE RESCUE MISSION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017 with Comparative Totals for 2016

	Program Services												Supporting Services			2017	2016
	Emergency Services	Family Shelter	Youth	Good Neighbor Café	Challenge Learning Services	New Life Program	Tyler Family Housing	Search and Rescue	Counseling Services	Affordable Housing	Donation Center	Total Program Services	Development	Management and General	Total Support Services	Total Expenses	Total Expenses
Salaries	\$ 301,608	\$ 540,778	\$ 147,188	\$ 202,430	\$ 211,520	\$ 180,430	\$ 163,261	\$ 40,948	\$ 97,283	\$ 81,007	\$ 114,029	\$ 2,080,482	\$ 131,537	\$ 247,957	\$ 379,494	\$ 2,459,976	\$ 2,223,894
Benefits	56,438	115,431	44,461	28,719	48,348	68,274	42,239	12,829	15,691	20,565	19,926	472,921	65,405	52,604	118,009	590,930	541,099
Payroll taxes	33,657	60,151	15,218	21,664	20,276	16,858	15,388	4,654	9,562	7,583	12,370	217,381	13,384	28,478	41,862	259,243	239,191
Total Employee Compensation	391,703	716,360	206,867	252,813	280,144	265,562	220,888	58,431	122,536	109,155	146,325	2,770,784	210,326	329,039	539,365	3,310,149	3,004,184
Other expenses																	
Utilities	38,134	75,222		34,798	14,931	45,519	42,049			53,427	23,482	327,562	3,495	7,488	10,983	338,545	335,244
Building and groundskeeping	33,887	52,790	62	56,091	7,214	26,209	98,651	28	44	80,849	7,315	363,140	1,118	2,766	3,884	367,024	276,598
Maintenance	25,958	43,197	1,585	17,041	1,387	32,100	90,951			57,068	3,765	273,052	594	8,719	9,313	282,365	286,724
Equipment expense	14,656	19,330	1,195	21,625	7,922	9,461	22,801	590	657	13,112	4,629	115,978	4,586	6,241	10,827	126,805	112,178
Transportation and travel		4,267	5,515		2,046	441	592	3,916	107	490	9,962	27,336	2,202	4,164	6,366	33,702	29,035
Food			671	194,975					6			195,652				195,652	182,316
Client program expense	12,967	18,453	19,221		7,619	63,306	21,124	557	12	1,490		144,749				144,749	161,005
Insurance	3,601	15,644	4,588	4,676	3,636	5,854	5,797	5,178	4,495	5,704	6,523	65,696	2,619	9,669	12,288	77,984	78,034
Other ministries														1,696	1,696	1,696	734
Telephone	6,950	13,419		3,322	4,474	8,235	8,142	1,493	686	10,014	1,643	58,378	8,011	7,089	15,100	73,478	74,618
Stipends						19,309						19,309				19,309	26,794
Office supplies	2,384	5,889	275	20,805	2,329	834	3,370	121	299	1,281	3,450	41,037	3,532	9,546	13,078	54,115	51,031
Postage and printing	17,893	10,935	35		136	58,496	4,522		458	72	35	92,582	114,762	23,679	138,441	231,023	201,634
Conferences and meetings	2,058	3,103	6,067	999	5,508	2,309	1,264	217	739	1,322	1,757	25,343	8,415	29,971	38,386	63,729	32,965
License and permits	53	153	92	32	27	50				159	37	603	1,106	116	1,222	1,825	2,871
Professional fees	105,640	22,570	21,501	10,999	21,590	10,007	27,550	1,160	18,001	11,626	4,917	255,561	165,160	24,787	189,947	445,508	233,925
Interest expense						988	1,016			5,651		7,655				7,655	8,559
Property taxes		8					8			2,787		2,803				2,803	5,382
Advertising	225	315	135	360	400		180	45	360		180	2,200	55,144	225	55,369	57,569	50,293
Miscellaneous		1	65		5						9	80		243	243	323	1,870
Total Expenses before Depreciation	656,109	1,001,656	267,874	618,536	359,368	548,680	548,905	71,736	148,400	354,207	214,029	4,789,500	581,070	465,438	1,046,508	5,836,008	5,155,994
Depreciation	50,313	227,205	45	52,839	28,315	28,994	101,719	3,565	12	45,823	8,318	547,148	1,339	1,020	2,359	549,507	542,726
TOTAL	\$ 706,422	\$ 1,228,861	\$ 267,919	\$ 671,375	\$ 387,683	\$ 577,674	\$ 650,624	\$ 75,301	\$ 148,412	\$ 400,030	\$ 222,347	\$ 5,336,648	\$ 582,409	\$ 466,458	\$ 1,048,867	\$ 6,385,515	\$ 5,698,720

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

THE RESCUE MISSION

STATEMENT OF CASH FLOWS

Year Ended June 30, 2017 with Comparative Totals for 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 665,859	\$ (171,115)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	549,507	542,726
Loss on sale of assets	148,226	
Unrealized (gain) loss from beneficial interest in trust	(7,934)	12,916
Decrease in		
Grants receivables	38,695	113,472
Other receivables	378,291	4,738
Prepaid expenses	8,842	3,703
Increase (decrease) in		
Accounts payable and accrued expenses	<u>17,399</u>	<u>(41,426)</u>
Net Cash Provided by Operating Activities	1,798,885	465,014
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of building and equipment	(200,362)	(144,584)
Proceeds from sale of assets	<u>236,041</u>	
Net Cash Provided (Used) by Investing Activities	35,679	(144,584)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	<u>(23,061)</u>	<u>(22,159)</u>
Net Cash Used by Financing Activities	(23,061)	(22,159)
INCREASE IN CASH AND CASH EQUIVALENTS	<u>1,811,503</u>	<u>298,271</u>
Cash and Cash Equivalents at Beginning of Year	<u>1,532,333</u>	<u>1,234,062</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>3,343,836</u>	\$ <u>1,532,333</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ <u>7,683</u>	\$ <u>8,587</u>

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

THE RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The purpose of The Rescue Mission (the "Mission") is to assist people in becoming their best to help break chains of addiction, promote self-sufficiency and share the Christian faith. The Mission provides emergency services such as shelter and food to homeless and low income people, and offers various programs to help lift individuals from poverty. Its primary sources of support come from private donations and governmental grants.

From July 1, 2016 through June 30, 2017, The Rescue Mission served 1,936 unduplicated clients, not counting hundreds of clients served anonymously in the Mission's Good Neighbor Café. The Emergency Services men's shelter provided 49,557 nights of warm shelter to 1,201 unduplicated homeless men. The Tacoma Overnight Family Shelter (new this year) and the Adams Street Family Campus shelter provided homeless women, parents and children with 7,668 and 32,242 nights of safe and secure shelter, respectively. In the Adams Street facility, homeless parents and children were provided with 5,108 days of transitional housing. The Tyler Street Family Campus provided 114 homeless parents and children with 17,143 days of transitional housing. Affordable housing was provided to 49 very low income tenants at Jefferson Apartments. The New Life Program provided faith-based free-of-charge residential addiction recovery to 49 men and 37 women. Challenge Learning Services provided 84 adult literacy and GED students with 9,430 hours of academic tutoring and classes. The Good Neighbor Café served 300,098 meals (an average of 822 meals daily) to very low income and homeless clients.

Rental Income Detail

The Rescue Mission operates multiple rental properties throughout Pierce County. The Affordable Housing programs consist of two properties that provide transitional housing and four that provide low income housing. Additionally, the Mission owns two private rental houses.

Transitional Housing

Rents are subsidized by government HUD funding. The Family Life Program operating at the Tyler Street Family Campus has 27 apartments, 15 of these are subsidized by HUD. Government rents for the years ended June 30, 2017 and 2016 at this property totaled \$109,764 and \$169,778, respectively. The Transitional Housing program operating at the Adams Street Family Campus has 16 apartments, 4 of which are subsidized by HUD. Government rents for the years ended June 30, 2017 and 2016 at this property totaled \$22,550 and \$21,167, respectively.

Low Income Housing

The Jefferson Apartments consist of 42 single occupancy units. Rent for this facility totaled \$293,544 and \$251,421 for the years ended June 30, 2017 and 2016, respectively. Of the 2017 total, \$211,936 was funded by HUD and \$81,608 came from tenants.

THE RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Market Rate Rental Houses

In 2009, the Mission was gifted two houses in Spanaway, Washington as part of an endowment gift. They had been maintained as rental houses from the time they were acquired through their dates of sale in November and December of 2016. Rental income for the years ended June 30, 2017 and 2016 was \$4,000 and \$25,550, respectively.

Basis of Presentation

The Mission presents its financial statements in accordance with authoritative guidance for financial statements of not-for-profit organizations by which the Mission is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted and permanently restricted net assets.

Comparative Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Mission's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on the accrual basis of accounting, where revenues are recognized when earned, and expenses are recognized when the obligation is incurred, regardless of the timing of the related cash flows.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Mission considers cash and cash equivalents to include cash on hand or in banks and liquid investments with original maturities of three months or less.

THE RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land, Buildings and Equipment

The Mission capitalizes land, buildings and equipment with an individual cost of \$1,000 or more and an estimated useful life of more than one year. Purchased land, buildings and equipment are recorded at cost and donated land, buildings and equipment are recorded at fair value on the date received. Depreciation is provided on a straight-line basis over the following estimated useful lives:

Buildings	20 - 40 Years
Improvements	10 - 20 Years
Furniture and equipment	5 Years
Vehicles	5 Years

Depreciation expense for the years ended June 30, 2017 and 2016 was \$549,507 and \$542,726, respectively.

Donations of land, buildings and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets, 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 land, buildings and equipment, are reported as restricted contributions.

The Mission reclassifies temporarily restricted net assets to unrestricted net assets each year for the amount of depreciation expense relating to the donor-restricted property and equipment. The Mission reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Mission reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Contributions

Contributions are recorded as revenue when an unconditional promise to give is received and recorded at fair value on the date received. Wills and trusts are accrued as revenue when the respective will or trust has been declared valid, which totaled \$75,000 and \$29,500 at June 30, 2017 and 2016.

Contributions that are restricted by the donor are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions. Restricted contributions received, whose restrictions are met in the same reporting period, are recorded as unrestricted support. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give, due in subsequent years, are reported at the present value of their net realizable value using risk-free interest rates applicable to the years in which the promises are to be received.

THE RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

The Mission receives significant amounts of volunteer services as part of its normal operations. Approximately 55,500 and 84,000 hours of volunteer services were received in the years ended June 30, 2017 and 2016, respectively, but were not recognized in the financial statements because they did not meet the recognition criteria.

Federal Income Taxes

No provision for income taxes has been made in the financial statements since the Mission is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled \$57,569 and \$50,293 for 2017 and 2016, respectively.

Functional Allocation of Expenses

The costs of providing the Mission's program and supporting services have been summarized on the statement of activities. Functional expenses have been allocated among the program services and supporting services on the basis of benefits received. Fundraising costs for the years ended June 30, 2017 and 2016 totaled \$582,409 and \$432,948, respectively, and are presented as development in the financial statements.

Subsequent Events

The management of the Mission evaluated for subsequent events and transactions for potential recognition and disclosure through September 25, 2017, the date the financial statements were available to be issued.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Mission has credit risk with monies held by two financial institutions in the form of money market and checking accounts in excess of Federal Deposit Insurance Corporation ("FDIC") limitations. These excess balances are subject to the risk of bank failure since they are not covered by the FDIC. The Mission monitors these balances regularly and has not experienced any losses in such accounts and believes it is not exposed to any significant risk to cash.

The Mission also maintains an account containing cash and securities with a bank trust department. This account is uninsured.

THE RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 - BENEFICIAL INTEREST IN TRUSTS

The Mission is a partial beneficiary of various trusts created by donors, the assets of which are not in its possession. The Mission has legally enforceable rights and claims to such assets, including its interest percentage to the income therefrom. Net realized and unrealized gains and losses related to the beneficial interests are reported as changes in permanently restricted net assets (see Note 8). The beneficial interests are recorded at the fair value of the assets in the underlying trusts which approximates the present value of estimated future distributions. The balance at June 30, 2017 and 2016 was \$180,156 and \$172,222, respectively.

NOTE 4 - FAIR VALUE MEASUREMENTS

Financial assets and liabilities valued using Level 1 inputs are based on adjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. There were no Level 2 or 3 inputs applied to the Mission's financial instruments.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at June 30, 2017 and 2016.

Beneficial Interest in Trusts

Underlying assets held in trusts invested in mutual funds valued at the closing price reported on the active market on which the shares of mutual fund securities are traded.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Mission believes its valuation technique and inputs are appropriate and consistent with other market participants, the use of different techniques and inputs or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

THE RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

Fair value of investments measured on a recurring basis is as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets For Identical Assets (Level 1)</u>
<u>June 30, 2017</u>		
Beneficial interest in trusts	\$ <u>180,156</u>	\$ <u>180,156</u>
Total Assets at Fair Value	\$ <u>180,156</u>	\$ <u>180,156</u>
<u>June 30, 2016</u>		
Beneficial interest in trusts	\$ <u>172,222</u>	\$ <u>172,222</u>
Total Assets at Fair Value	\$ <u>172,222</u>	\$ <u>172,222</u>

NOTE 5 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Land		\$ 1,145,333	\$ 1,145,333
Buildings and improvements		18,990,304	18,990,304
Furniture, fixtures and equipment	\$ 1,383,071		1,383,071
Vehicles	<u>145,170</u>		<u>145,170</u>
	1,528,241	20,135,637	21,663,878
Less accumulated depreciation	<u>(1,337,152)</u>	<u>(5,805,526)</u>	<u>(7,142,678)</u>
	191,089	14,330,111	14,521,200
Construction in progress	<u>94,280</u>		<u>94,280</u>
	\$ <u>285,369</u>	\$ <u>14,330,111</u>	\$ <u>14,615,480</u>

THE RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 5 - LAND, BUILDINGS AND EQUIPMENT (Continued)

Land, buildings and equipment consist of the following at June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Land	\$ 176,200	\$ 1,145,333	\$ 1,321,533
Buildings and improvements	208,100	18,830,562	19,038,662
Furniture, fixtures and equipment	1,404,875		1,404,875
Vehicles	<u>152,867</u>		<u>152,867</u>
	1,942,042	19,975,895	21,917,937
Less accumulated depreciation	<u>(1,323,714)</u>	<u>(5,313,061)</u>	<u>(6,636,775)</u>
	618,328	14,662,834	15,281,162
Construction in progress	<u>67,730</u>		<u>67,730</u>
	<u>\$ 686,058</u>	<u>\$ 14,662,834</u>	<u>\$ 15,348,892</u>

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following mortgages owed on property owned by the Mission as of June 30:

	<u>2017</u>	<u>2016</u>
<u>Secured by deeds of trust on the Downtown Tacoma Campus</u>		
Mortgage payable to Tacoma Community Re-development Association, noninterest-bearing deferred loan, payable November 2020. ⁽¹⁾⁽²⁾	\$ 1,155,383	\$ 1,155,383
Mortgage payable to the State of Washington, Department of Community, Trade and Economic Development, noninterest-bearing deferred loan, payable November 2050. ⁽²⁾	1,000,000	1,000,000
Mortgage payable to Pierce County Department of Community Services, noninterest-bearing deferred loan, payable June 2025. ⁽¹⁾⁽²⁾	122,400	122,400

THE RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2017</u>	<u>2016</u>
<u>Secured by deeds of trust on the Jefferson Apartments</u>		
Mortgage payable to the State of Washington, Department of Community Development, noninterest-bearing deferred loan, payable September 2032. Additionally, the note also provides for a recoverable grant of \$134,167 to be paid by the Mission upon sale or change of use of the property.	\$ 365,833	\$ 365,833
Mortgage payable to Pierce County Department of Community and Economic Development, noninterest-bearing deferred loan, payable December 2018. ⁽¹⁾⁽²⁾	159,500	159,500
Mortgage payable to Commercial Bank, payable in monthly installments of \$1,924, including interest at 5% through October 2022.	103,525	120,964
Mortgage payable to Pierce County Department of Community and Economic Development, noninterest-bearing deferred loan, payable December 2018. ⁽¹⁾⁽²⁾	165,700	165,700
<u>Secured by deeds of trust on the Tyler Street Family Campus</u>		
Mortgage payable to Tacoma Community Re-development Authority, noninterest-bearing deferred loan, payable August 2033. ⁽¹⁾⁽²⁾	545,130	545,130
Mortgage payable to State of Washington, Department of Community, Trade and Economic Development, noninterest-bearing deferred loan payable October 2044. ⁽¹⁾⁽²⁾	500,000	500,000
Mortgage payable to the State of Washington, Department of Community Development, payable in annual installments of \$7,654, including interest at 1% through December 2046. Secured by an assignment of rents and leases of Tyler Square property.	197,528	203,150
Mortgage payable to Pierce County Department of Community Services, noninterest-bearing deferred loan, payable July 2020. ⁽¹⁾⁽²⁾	280,000	280,000

THE RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2017</u>	<u>2016</u>
<u>Secured by deeds of trust on the Adams Street Family Campus</u>		
Mortgage payable to Commercial Bank, noninterest-bearing deferred loan, payable October 2024. ⁽¹⁾⁽²⁾	\$ 1,000,000	\$ 1,000,000
Mortgage payable to Tacoma Community Re-development Authority, noninterest-bearing deferred loan, payable January 2038. ⁽²⁾	1,243,945	1,243,945
Mortgage payable to Pierce County Department of Community Services, noninterest-bearing deferred loan, payable August 2039. ⁽¹⁾⁽²⁾	160,848	160,848
Mortgage payable to Pierce County Department of Community Services, noninterest-bearing deferred loan, payable August 2039. ⁽¹⁾⁽²⁾	75,000	75,000
Mortgage payable to Pierce County Department of Community Services, noninterest-bearing deferred loan, payable September 2040. ⁽¹⁾⁽²⁾	165,230	165,230
Mortgage payable to Pierce County Department of Community Services, noninterest-bearing deferred loan, payable April 2041. ⁽¹⁾⁽²⁾	75,000	75,000
Mortgage payable to Pierce County Department of Community Services, Community Development Division, noninterest-bearing deferred loan, payable December 2040. ⁽¹⁾⁽²⁾	240,000	240,000
Mortgage payable to Pierce County Department of Community Services, Community Development Division, noninterest-bearing deferred loan, payable December 2040. ⁽¹⁾⁽²⁾	200,000	200,000
Mortgage payable to State of Washington, Department of Community, Trade and Economic Development, noninterest-bearing deferred loan, payable September 2050. ⁽¹⁾⁽²⁾	3,000,000	3,000,000

THE RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2017</u>	<u>2016</u>
Mortgage payable to Pierce County Department of Community Services, noninterest-bearing deferred loan, payable June 2026. ⁽¹⁾⁽²⁾	\$ <u>111,000</u>	\$ <u>111,000</u>
	\$ <u>10,866,022</u>	\$ <u>10,889,083</u>

⁽¹⁾ Noninterest-bearing loans that provide for interest at 12% in the event of default of any of the loan terms.

⁽²⁾ Principal balance is deemed paid on the maturity date if the Mission is not in default of compliance requirements defined in the loan agreement.

Principal payments and loan forgiveness on long-term debt for the five years subsequent to June 30, 2017 are as follows:

	<u>Payments</u>	<u>Loan Forgiveness</u>	<u>Total</u>
2018	\$ 24,011		\$ 24,011
2019	25,006	\$ 325,200	350,206
2020	26,049		26,049
2021	27,143	1,435,383	1,462,526
2022	28,291		28,291
Thereafter	<u>170,553</u>	<u>8,804,386</u>	<u>8,974,939</u>
	\$ <u>301,053</u>	\$ <u>10,564,969</u>	\$ <u>10,866,022</u>

NOTE 7 - OPERATING LEASES

The Mission leases telephone equipment under an operating lease with monthly payments of \$647 expiring March 2019, and a copier under an operating lease with monthly payments of \$525 expiring June 2019.

Total rental payments are \$27,855 and \$15,315 for the years ended June 30, 2017 and 2016, respectively.

Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year as of June 30, 2017, and in the aggregate are:

2018	\$ 14,064
2019	<u>12,123</u>
	\$ <u>26,187</u>

THE RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - NET ASSETS

Net assets as of June 30 are classified as follows:

	<u>2017</u>	<u>2016</u>
<u>Unrestricted</u>		
Quasi-endowment		
Cash	\$ 368,866	\$ 47,086
Property		384,300
Board designated	989,087	510,281
Undesignated	<u>1,606,353</u>	<u>995,050</u>
	<u>\$ 2,964,306</u>	<u>\$ 1,936,717</u>
<u>Temporarily Restricted</u>		
Various properties	\$ 3,572,759	\$ 3,854,997
Support of program activities	<u>547,624</u>	<u>635,050</u>
	<u>\$ 4,120,383</u>	<u>\$ 4,490,047</u>
<u>Permanently Restricted</u>		
Perpetual trust agreements	\$ 180,156	\$ 172,222
Donor restricted endowments	<u>151,528</u>	<u>151,528</u>
	<u>\$ 331,684</u>	<u>\$ 323,750</u>

The income from the trust agreements is permanently restricted, and the endowment income is unrestricted for support of general operations.

Temporarily Restricted Net Assets Released to Unrestricted

Net assets as of June 30 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	<u>2017</u>	<u>2016</u>
Purpose restriction accomplished		
Payments made on long-term debt	\$ 23,061	\$ 22,159
Time restrictions expired		
Passage of specified time	<u>434,911</u>	<u>480,340</u>
	<u>\$ 457,972</u>	<u>\$ 502,499</u>

THE RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - ENDOWMENT

The Mission's endowments consist of the following:

One donor restricted fund for the on-going operational needs of the Mission. The fund assets are invested in a money market account that is included in cash at June 30, 2017 and 2016. Interest earned on the money market account is considered appropriated as received.

One board designated fund treated as a quasi-endowment for the on-going operational needs of the Mission. The fund assets are invested in land and buildings (Note 5) contributed by the donor which produce rental income. The rental income earned on the land and buildings is considered appropriated as received.

Interpretation of Relevant Law

The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") was enacted by Washington State as of July 2009. The Mission has interpreted the Washington State enacted version of 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 Mission classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) 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 Mission in a manner consistent with the standard of prudence prescribed by UPMIFA.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015	\$ 406,588		\$ 151,528	\$ 558,116
Endowment investment return Interest and dividends, net of fees	92			92
Rental income	25,550			25,550
Repayment of endowment receivable	24,706			24,706
Appropriation of endowment assets for expenditure	<u>(25,550)</u>	<u>_____</u>	<u>_____</u>	<u>(25,550)</u>
Endowment net assets, June 30, 2016	431,386		151,528	582,914

THE RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - ENDOWMENT (Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment investment return Interest and dividends, net of fees	\$ 76			\$ 76
Rental income	4,000			4,000
Repayment of endowment receivable	321,704			321,704
Sale of property	(384,300)			(384,300)
Appropriation of endowment assets for expenditure	<u>(4,000)</u>	<u> </u>	<u> </u>	<u>(4,000)</u>
Endowment Net Assets, June 30, 2017	\$ <u>368,866</u>	\$ <u> </u>	\$ <u>151,528</u>	\$ <u>520,394</u>

As of June 30, 2017, the Mission had fully repaid the board designated endowment.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the total amount of the gifts made to the endowment by the donor. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2017 and 2016.

Return Objectives and Risk Parameters

The Mission has adopted policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Mission has been instructed to hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that, over time, will provide a real rate of return equal to the spending rate while assuming a reasonable level of investment risk. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Mission has adopted a formal investment and endowment policy.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Mission's spending policy is to expend the earned interest and rental income as it is received. The Mission has adopted this investment policy for endowed assets in an attempt to provide a predictable stream of funding for operations supported by the endowment while seeking to maintain the purchasing power of endowed assets and honor the donor's desired restrictions.

THE RESCUE MISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 10 - RETIREMENT

The Mission has a defined contribution plan that covers all employees who have completed sixty days of service. The Mission's contribution is \$1 for every \$2 the employee contributes into the plan, up to 5% of eligible employee's salaries. For the years ended June 30, 2017 and 2016, the Mission contributed \$38,214 and \$34,766, respectively, into the plan.

NOTE 11 - SALES OF REAL ESTATE

In July 2014, the Mission sold its Tacoma Avenue property. As part of the sale of the Tacoma Avenue property, the Mission assumed a loan receivable for \$425,000, included with other receivables on the statement of financial position, with an interest rate of 5% per annum. The loan calls for interest only payments on the outstanding principal balance to be made beginning September 2014. The entire balance of the loan receivable and all accrued interest was received during the fiscal year 2017.

In November and December 2016, the Mission sold two donated houses in Spanaway, Washington for a total sale price of \$236,041. A loss on the sale of the properties of \$148,226 is reported in the statement of activities for the year ended June 30, 2017.

NOTE 12 - CONTINGENCIES

During 2017, the Mission settled a lawsuit related to damages to the Mission's downtown campus on South Tacoma Way in the amount of \$912,189 net of attorney's fees, which is included in the statement of activities in miscellaneous income.

SUPPLEMENTARY INFORMATION

THE RESCUE MISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

<u>Federal Awards</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grant/Entitlement Grants passed through City of Tacoma Human Rights and Services Department	14.218	None	\$ 50,000
Community Development Block Grant/Entitlement Grants (Loan) passed through City of Tacoma Redevelopment Authority - Tyler Street Family Campus	14218	None	545,130
Community Development Block Grant/Entitlement Grants (Loan) passed through City of Tacoma Redevelopment Authority - Adams Street Family Campus	14.218	None	1,243,945
Community Development Block Grant/Entitlement Grants (Loan) passed through Pierce County Department of Community Services - Adams Street Family Campus	14.218 14.218 14.218	B-O-UC-53-0002 72093 200106040723	240,000 200,000 111,000
Community Development Block Grant/Entitlement Grants (Loan) passed through Pierce County Department of Community Services - Jefferson Street Campus	14.218 14.218	B-90-UC-53-0002 B-91-UC-53-0002	159,500 165,700
Community Development Block Grant/Entitlement Grants (Loan) passed through Pierce County Department of Community Services - Tyler Street Family Campus	14.218	B-03-UC-53-0002	280,000
Community Development Block Grant/Entitlement Grants (Loan) passed through Pierce County Department of Community Services - Downtown Tacoma Campus	14.218	B-99-UC-53-0002	<u>122,400</u>
Total			<u>3,117,675</u>

THE RESCUE MISSION**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**

Year Ended June 30, 2017

<u>Federal Awards</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Emergency Shelter Grants Program passed through Pierce County Housing Programs, Department of Community Services	14.231	SC-103709	\$ 22,616
Emergency Shelter Grants Program passed through City of Tacoma Human Rights and Services Department	14.231	None	<u>40,000</u>
Total			<u>62,616</u>
Total U.S. Department of Housing and Urban Development			3,180,291
U.S. Department of Homeland Security			
Department of Homeland Security Direct Programs Emergency Food and Shelter National Board Program	97.024	31-8914-00	44,919
U.S. Department of Education			
Office of Adult Literacy Staff Development - State Grant Program passed through State of Washington Board for Community and Technical Colleges	84.002A	264-ABE-15	<u>50,764</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u><u>3,275,974</u></u>

THE RESCUE MISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of The Rescue Mission under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The following is a reconciliation of the difference:

Total expenditures of federal awards	\$ 3,275,974
Less loan balances outstanding	(3,067,675)
Add nonfederal revenue	<u>764,930</u>
Total Grant Revenue per Accompanying Statement of Activities	\$ <u>973,229</u>

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the costs principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) The Rescue Mission has elected to not use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 - LOANS OUTSTANDING

The Rescue Mission had the following loan balances outstanding at June 30, 2017. The loan balances outstanding are also included in the federal expenditures presented in the Schedule.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Community Development Block Grant - Tyler Street Family Campus	14.218	\$ 825,130
Community Development Block Grants - Adams Street Family Campus	14.218	1,794,945
Community Development Block Grants - Jefferson Apartments	14.218	325,200
Community Development Block Grants - Downtown Tacoma Campus	14.218	<u>122,400</u>
		\$ <u>3,067,675</u>

REPORTS ON COMPLIANCE
AND INTERNAL CONTROL



1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

Board of Directors
The Rescue Mission
Tacoma, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Rescue Mission (the "Mission"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated September 25, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Mission's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Rescue Mission's internal control. Accordingly, we do not express an opinion on the effectiveness of The Rescue Mission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

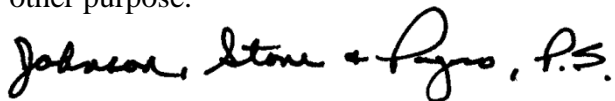
Board of Directors
The Rescue Mission

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Rescue Mission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Mission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



JOHNSON, STONE & PAGANO, P.S.

September 25, 2017



1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

Independent Auditor's Report on Compliance for Each Major
Program and on Internal Control over Compliance
Required by the Uniform Guidance

Board of Directors
The Rescue Mission
Tacoma, Washington

Report on Compliance for Each Major Federal Program

We have audited The Rescue Mission's (the "Mission") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on The Rescue Mission's major federal program for the year ended June 30, 2017. The Rescue Mission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of The Rescue Mission's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Rescue Mission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of The Rescue Mission's compliance.

Opinion on Each Major Federal Program

In our opinion, The Rescue Mission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

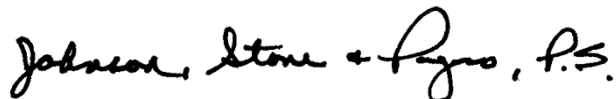
Report on Internal Control over Compliance

Management of The Rescue Mission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Rescue Mission's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Rescue Mission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



JOHNSON, STONE & PAGANO, P.S.

September 25, 2017

THE RESCUE MISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200 516(a)?	No

Identification of Major Program

14.218 Department of Housing and Urban Development
Community Development Block Grant/Entitlement Grants

Dollar threshold used to distinguish between type A and type B programs	\$ 750,000
Auditee qualified as a low-risk auditee?	Yes

THE RESCUE MISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Year Ended June 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.