

THE RESCUE MISSION

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

June 30, 2018 and 2017

THE RESCUE MISSION

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

June 30, 2018 and 2017

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Independent Auditor's Report

Board of Directors
The Rescue Mission
Tacoma, Washington

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Rescue Mission (the "Mission"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Mission's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Rescue Mission as of June 30, 2018, 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

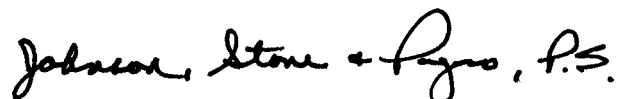
We have previously audited The Rescue Mission's June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 25, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements as restated, from which it has been derived.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2019 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.

March 26, 2019

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

THE RESCUE MISSION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 with Comparative Totals for 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,731,124	\$ 3,343,836
Grants receivable	145,547	309,927
Other receivables	40,917	84,943
Prepaid expenses	32,605	6,898
Investments	740,691	
Beneficial interest in trusts	180,730	180,156
Land, buildings and equipment, net	<u>14,404,525</u>	<u>14,615,480</u>
TOTAL ASSETS	<u>\$ 18,276,139</u>	<u>\$ 18,541,240</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 200,961	\$ 258,845
Long-term debt	<u>10,842,010</u>	<u>10,866,022</u>
Total Liabilities	11,042,971	11,124,867
NET ASSETS		
Unrestricted	3,188,447	2,964,306
Temporarily restricted	3,712,463	4,120,383
Permanently restricted	<u>332,258</u>	<u>331,684</u>
Total Net Assets	<u>7,233,168</u>	<u>7,416,373</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,276,139</u>	<u>\$ 18,541,240</u>

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

THE RESCUE MISSION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2018 with Comparative Totals for 2017

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
<u>SUPPORT AND REVENUE</u>					
PUBLIC SUPPORT					
Donations	\$ 3,276,591			\$ 3,276,591	\$ 3,155,381
Foundations	640,748	\$ 225,970		866,718	614,081
Wills and trusts	394,093			394,093	807,402
United Way	46,815			46,815	75,950
Total Public Support	4,358,247	225,970		4,584,217	4,652,814
GRANTS FROM GOVERNMENTAL AGENCIES	978,010			978,010	973,229
REVENUE					
Rental income	471,415			471,415	429,858
Program revenue	138,946			138,946	
Miscellaneous	221,614			221,614	1,107,723
Interest income	21,359			21,359	28,042
Loss on disposition of assets	(751)			(751)	(148,226)
Unrealized loss on investments	(3,765)			(3,765)	
Unrealized gain from trusts			\$ 574	574	7,934
Total Revenue	848,818		574	849,392	1,425,331
Net Assets Released from Restrictions	633,890	(633,890)			
TOTAL SUPPORT AND REVENUE	6,818,965	(407,920)	574	6,411,619	7,051,374

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

THE RESCUE MISSION

CONSOLIDATED STATEMENT OF ACTIVITIES (Continued)

Year Ended June 30, 2018 with Comparative Totals for 2017

	2018			2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<u>EXPENSES</u>				
Program services				
Emergency services	\$ 817,483			\$ 817,483
Family shelter	1,055,932			1,055,932
Youth	300,172			300,172
Good Neighbor Café	733,163			733,163
Challenge Learning Services	378,717			378,717
New Life Program	510,295			510,295
Tyler Family Housing	494,739			494,739
Search and Rescue	49,230			49,230
Counseling services	162,486			162,486
Affordable Housing	382,886			382,886
Donation center	234,897			234,897
Rescue Maintenance Services, LLC	277,282			277,282
Total Program Services	5,397,282			5,397,282
Support services				
Development	660,149			660,149
Management and general	537,393			537,393
Total Support Services	1,197,542			1,197,542
Total Expenses	6,594,824			6,594,824
CHANGE IN NET ASSETS	224,141	\$ (407,920)	\$ 574	(183,205)
Net Assets at Beginning of Year	2,964,306	4,120,383	331,684	7,416,373
NET ASSETS AT END OF YEAR	\$ 3,188,447	\$ 3,712,463	\$ 332,258	\$ 7,233,168

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

THE RESCUE MISSION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018 with Comparative Totals for 2017

	Program Services												Supporting Services			2018	2017	
	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	Rescue Maintenance Services, LLC	Total Program Services	Development	Management and General	Total Support Services	Total Expenses	Total Expenses
Salaries	\$ 336,154	\$ 387,492	\$ 143,052	\$ 229,866	\$ 207,551	\$ 194,099	\$ 194,278	\$ 24,857	\$ 119,865	\$ 95,488	\$ 130,943	\$ 125,515	\$ 2,189,160	\$ 114,287	\$ 268,582	\$ 382,869	\$ 2,572,029	\$ 2,459,976
Benefits	74,765	108,077	27,206	41,284	55,446	42,835	45,570	5,549	14,563	21,434	30,211		466,940	60,148	56,549	116,697	583,637	590,930
Payroll taxes	36,928	42,854	14,958	24,130	20,015	18,411	17,168	2,822	12,029	9,034	14,226	28,637	241,212	12,707	28,506	41,213	282,425	259,243
Total Employee Compensation	447,847	538,423	185,216	295,280	283,012	255,345	257,016	33,228	146,457	125,956	175,380	154,152	2,897,312	187,142	353,637	540,779	3,438,091	3,310,149
Other expenses																		
Utilities	47,606	71,443	14,639	39,494	7,243	66,587	24,520			52,588	15,100	1,252	340,472	7,109	7,109	14,218	354,690	338,545
Building and groundskeeping	34,686	53,000	7,650	49,837	2,169	24,414	25,163		4	72,942	3,096	30,268	303,229	1,690	4,648	6,338	309,567	367,024
Maintenance	7,872	22,548	9,473	15,877	3,068	32,287	23,748			27,884	534		143,291	1,601	5,604	7,205	150,496	282,365
Equipment expense	7,803	18,111	2,473	19,560	6,955	4,688	6,756	176	545	15,886	1,875	10,212	95,040	1,813	11,035	12,848	107,888	126,805
Transportation and travel	339	4,674	6,649		736	6,129	120	6,882		384	12,178	8,197	46,288	1,393	3,042	4,435	50,723	33,702
Food			1,624	183,424			101					764	185,913				185,913	195,652
Client program expense	13,943	20,987	23,817	165	4,000	22,478	17,097	602		4,495			107,584				107,584	144,749
Insurance	3,365	5,962	5,975	6,574	3,299	8,281	5,599	2,768	3,945	6,133	3,297	1,404	56,602	3,300	14,674	17,974	74,576	77,984
Other ministries															1,207	1,207	1,207	1,696
Telephone	3,833	7,081		1,661	4,072	6,249	4,126	1,000	550	5,973	786	1,725	37,056	4,686	4,043	8,729	45,785	73,478
Stipends						16,010							16,010				16,010	19,309
Office supplies	1,540	4,460	507	22,203	2,353	1,004	2,449	58	372	1,067	4,137	35,406	75,556	4,488	9,370	13,858	89,414	54,115
Postage and printing	12,021	51,926	8,838	27,514	88	16,811	119	44		44		78	117,483	81,932	25,758	107,690	225,173	231,023
Conferences and meetings	2,822	1,533	2,561	189	5,403	1,037	1,349	61	1,476	102	375	44	16,952	4,989	6,402	11,391	28,343	63,729
License and permits	39	105	139	37	6	31				38	13	2,323	2,731	1,141	115	1,256	3,987	1,825
Professional fees	179,718	25,396	29,662	12,693	26,735	13,225	14,709	849	9,125	16,526	8,756	4,159	341,553	217,771	67,620	285,391	626,944	445,508
Interest expense						1,947				4,759			6,706				6,706	7,655
Property taxes		9					9			9			27				27	2,803
Business taxes												4,772	4,772				4,772	
Advertising	360	315	540	450	180	180				45	352	18,395	20,817	139,637	150	139,787	160,604	57,569
Miscellaneous		241	76				91				3	2,997	3,408	136	21,906	22,042	25,450	323
Total Expenses Before Depreciation	763,794	826,214	299,839	674,958	349,319	476,703	382,972	45,668	162,474	334,831	225,882	276,148	4,818,802	658,828	536,320	1,195,148	6,013,950	5,836,008
Depreciation	53,689	229,718	333	58,205	29,398	33,592	111,767	3,562	12	48,055	9,015	1,134	578,480	1,321	1,073	2,394	580,874	549,507
TOTAL EXPENSES	<u>\$ 817,483</u>	<u>\$ 1,055,932</u>	<u>\$ 300,172</u>	<u>\$ 733,163</u>	<u>\$ 378,717</u>	<u>\$ 510,295</u>	<u>\$ 494,739</u>	<u>\$ 49,230</u>	<u>\$ 162,486</u>	<u>\$ 382,886</u>	<u>\$ 234,897</u>	<u>\$ 277,282</u>	<u>\$ 5,397,282</u>	<u>\$ 660,149</u>	<u>\$ 537,393</u>	<u>\$ 1,197,542</u>	<u>\$ 6,594,824</u>	<u>\$ 6,385,515</u>

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

THE RESCUE MISSION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended June 30, 2018 with Comparative Totals for 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (183,205)	\$ 665,859
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	580,874	549,507
Loss on disposition of assets	751	148,226
Unrealized loss on investments	3,765	
Unrealized gain from beneficial interest in trusts	(574)	(7,934)
(Increase) decrease in		
Grants receivables	164,380	38,695
Other receivables	44,026	(46,709)
Prepaid expenses	(25,707)	8,842
Increase (decrease) in		
Accounts payable and accrued expenses	(57,884)	17,399
Net Cash Provided by Operating Activities	<u>526,426</u>	<u>1,373,885</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from note receivable		425,000
Purchases of building and equipment	(370,670)	(200,362)
Proceeds from sale of assets		236,041
Purchase of investments	(744,456)	
Net Cash Provided (Used) by Investing Activities	<u>(1,115,126)</u>	<u>460,679</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(24,012)	(23,061)
Net Cash Used by Financing Activities	<u>(24,012)</u>	<u>(23,061)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(612,712)	1,811,503
Cash and Cash Equivalents at Beginning of Year	<u>3,343,836</u>	<u>1,532,333</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,731,124</u>	<u>\$ 3,343,836</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ <u>6,706</u>	\$ <u>7,683</u>

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

THE RESCUE MISSION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 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, 2017 through June 30, 2018, the Mission served 2,354 unduplicated clients, not counting hundreds of clients served anonymously in the Mission's Good Neighbor Café. The Emergency Services men's shelter provided 46,732 nights of warm shelter to 1,475 unduplicated homeless men. The Adams Street Family Campus shelter provided homeless women, parents and children with 44,154 nights of safe and secure shelter. In the Adams Street facility, homeless parents and children were provided with 5,124 days of transitional housing. The Tyler Street Family Campus provided 67 homeless parents and children with 18,220 days of transitional housing. Affordable housing was provided to 54 very low income tenants at Jefferson Apartments. The New Life Program provided faith-based, free-of-charge residential addiction recovery to 47 men and 31 women. Challenge Learning Services provided 100 adult literacy and GED students with 9,417 hours of academic tutoring and classes. The Good Neighbor Café served 291,603 meals (an average of 799 meals daily) to very low income and homeless clients.

Principles of Consolidation

The consolidated financial statements include the accounts of the Mission and its wholly-owned limited liability company Rescue Maintenance Services, LLC. All material intercompany accounts and transactions have been eliminated in consolidation. The Mission created Rescue Maintenance Services, LLC to explore the creation of job opportunities for individuals served through the Mission's recovery programs.

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 sold four that provide low income housing.

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, 2018 and 2017 at this property totaled \$164,934 and \$109,764, 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, 2018 and 2017 at this property totaled \$22,971 and \$22,550, respectively.

THE RESCUE MISSION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Low Income Housing

The Jefferson Apartments consist of 42 single occupancy units. Rent for this facility totaled \$283,509 and \$293,544 for the years ended June 30, 2018 and 2017, respectively. Of the 2018 total, \$201,091 was funded by HUD and \$82,418 came from tenants.

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 year ended June 30, 2017 was \$4,000.

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, 2017, 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE RESCUE MISSION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2018 and 2017 was \$580,874 and \$549,507, respectively.

Donations of land, buildings and equipment 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 \$23,000 and \$75,000 for the years ended June 30, 2018 and 2017.

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 CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 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 40,100 and 55,500 hours of volunteer services were received in the years ended June 30, 2018 and 2017, respectively, but were not recognized in the consolidated financial statements because they did not meet the recognition criteria.

Federal Income Taxes

No provision for income taxes has been made in the consolidated 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 \$160,604 and \$57,569 for 2018 and 2017, 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, 2018 and 2017 totaled \$660,149 and \$582,409, respectively, and are presented as development in the consolidated financial statements.

New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, to improve the presentation of net asset classifications and other information, presented or disclosed in the financial statements, regarding a not-for-profit entity's liquidity and availability of financial resources, board designations of net assets, financial performance and expenses on a functional basis. The ASU's requirements are broadly applicable, and will be effective for years beginning after December 15, 2017. Management is currently evaluating how the new requirements will affect the Mission's consolidated financial statements.

Subsequent Events

The management of the Mission evaluated for subsequent events and transactions for potential recognition and disclosure through March 26, 2019, the date the consolidated financial statements were available to be issued.

THE RESCUE MISSION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

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.

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 (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, 2018 and 2017 was \$180,730 and \$180,156, 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, 2018 and 2017.

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.

Fixed Income Securities

The value is based on unadjusted quoted market prices within active markets.

THE RESCUE MISSION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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.

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, 2018</u>		
Beneficial interest in trusts	\$ 180,730	\$ 180,730
Fixed income securities	<u>740,691</u>	<u>740,691</u>
Total Assets at Fair Value	\$ <u>921,421</u>	\$ <u>921,421</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>

NOTE 5 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Land		\$ 1,145,333	\$ 1,145,333
Buildings and improvements		19,289,094	19,289,094
Furniture, fixtures and equipment	\$ 1,469,986		1,469,986
Vehicles	<u>153,675</u>		<u>153,675</u>
	1,623,661	<u>20,434,427</u>	<u>22,058,088</u>
Less accumulated depreciation	<u>(1,408,337)</u>	<u>(6,314,749)</u>	<u>(7,723,086)</u>
	215,324	14,119,678	14,335,002
Construction in progress	<u>69,523</u>		<u>69,523</u>
	\$ <u>284,847</u>	\$ <u>14,119,678</u>	\$ <u>14,404,525</u>

THE RESCUE MISSION**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2018 with Comparative Totals for 2017

NOTE 5 - LAND, BUILDINGS AND EQUIPMENT (Continued)

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>

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>2018</u>	<u>2017</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 CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2018</u>	<u>2017</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.	85,192	103,525
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.	191,849	197,528
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 CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2018 with Comparative Totals for 2017

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2018</u>	<u>2017</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. ⁽¹⁾⁽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 CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2018</u>	<u>2017</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>10,842,010</u>	\$ <u>10,866,022</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, 2018 are as follows:

	<u>Payments</u>	<u>Loan Forgiveness</u>	<u>Total</u>
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
2023	7,959		7,959
Thereafter	<u>162,593</u>	<u>8,804,386</u>	<u>8,966,979</u>
	\$ <u>277,041</u>	\$ <u>10,564,969</u>	\$ <u>10,842,010</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.

Rescue Maintenance Services, LLC leases office space with monthly payments of \$700, which expired in September 2018 and was not renewed. Rescue Maintenance Services, LLC also leases storage space on a month-to-month lease with monthly payments of \$373.

Total rental payments are \$24,860 and \$27,855 for the years ended June 30, 2018 and 2017, respectively.

Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year as of June 30, 2018, and in the aggregate are:

2019	\$ <u>16,584</u>
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THE RESCUE MISSION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

NOTE 8 - NET ASSETS

Net assets as of June 30 are classified as follows:

	<u>2018</u>	<u>2017</u>
<u>Unrestricted</u>		
Quasi-endowment - cash		\$ 368,866
Board-designated	\$ 1,369,241	989,087
Undesignated	<u>1,819,206</u>	<u>1,606,353</u>
	<u>\$ 3,188,447</u>	<u>\$ 2,964,306</u>
<u>Temporarily Restricted</u>		
Various properties - net of debt	\$ 3,392,137	\$ 3,572,759
Support of program activities	<u>320,326</u>	<u>547,624</u>
	<u>\$ 3,712,463</u>	<u>\$ 4,120,383</u>
<u>Permanently Restricted</u>		
Perpetual trust agreements	\$ 180,730	\$ 180,156
Donor restricted endowments	<u>151,528</u>	<u>151,528</u>
	<u>\$ 332,258</u>	<u>\$ 331,684</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>2018</u>	<u>2017</u>
Purpose restriction accomplished		
Payments made on long-term debt	\$ 24,012	\$ 23,061
Time restrictions expired		
Passage of specified time	<u>609,878</u>	<u>434,911</u>
	<u>\$ 633,890</u>	<u>\$ 457,972</u>

NOTE 9 - ENDOWMENTS

The Mission's endowments consist of the following:

One donor restricted fund for the ongoing operational needs of the Mission. The fund assets are invested in a money market account that is included in cash at June 30, 2018 and 2017. Interest earned on the money market account is considered appropriated as received.

THE RESCUE MISSION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

NOTE 9 - ENDOWMENTS (Continued)

One board-designated fund treated as a quasi-endowment for the ongoing operational needs of the Mission. The fund assets were invested in land and buildings (Note 5) contributed by the donor which produced rental income. The rental income earned on the land and buildings was considered appropriated as received. These assets were sold in 2017 and the funds were moved to a board-designated cash fund during the year ended June 30, 2018. They are no longer being treated as a quasi-endowment.

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, 2016	\$ 431,386		\$ 151,528	\$ 582,914
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	368,866		151,528	520,394
Endowment investment return				
Interest and dividends, net of fees	192			192
Appropriation of endowment assets for expenditure	<u>(369,058)</u>	<u> </u>	<u> </u>	<u>(369,058)</u>
Endowment Net Assets, June 30, 2018	\$ <u> </u>	\$ <u> </u>	\$ <u>151,528</u>	\$ <u>151,528</u>

THE RESCUE MISSION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

NOTE 9 - ENDOWMENTS (Continued)

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, 2018 and 2017.

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.

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, 2018 and 2017, the Mission contributed \$55,103 and \$38,214, 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 consolidated 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.

THE RESCUE MISSION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 with Comparative Totals for 2017

NOTE 11 - SALES OF REAL ESTATE (Continued)

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 consolidated statement of activities for the year ended June 30, 2017.

NOTE 12 - RELATED PARTY

Rescue Maintenance Services, LLC holds a note payable to the acting President. The note is unsecured with 0% interest and was paid in full in December 2018. The balance at June 30, 2018 was \$1,200.

NOTE 13 - SUBSEQUENT EVENT

In January 2019, the Rescue Mission ceased the operations of Rescue Maintenance Services, LLC.

SUPPLEMENTARY INFORMATION

THE RESCUE MISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

Federal Awards	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Community Development Block - Entitlement Grant Cluster Grant/Entitlement Grants passed through City of Tacoma Human Rights and Services Department	14.218	None	\$ 49,847
Community Development Block - Entitlement Grant Cluster Grant/Entitlement Grants (Loan) passed through City of Tacoma Redevelopment Authority - Tyler Street Family Campus	14218	None	545,130
Community Development Block - Entitlement Grant Cluster Grant/Entitlement Grants (Loan) passed through City of Tacoma Redevelopment Authority - Adams Street Family Campus	14.218	None	1,243,945
Community Development Block - Entitlement Grant Cluster Grant/Entitlement Grants (Loan) passed through Pierce County Department of Community Services - Adams Street Family Campus	14.218	B-O-UC-53-0002	240,000
	14.218	72093	200,000
	14.218	200106040723	111,000
Community Development Block - Entitlement Grant Cluster Grant/Entitlement Grants (Loan) passed through Pierce County Department of Community Services - Jefferson Street Campus	14.218	B-90-UC-53-0002	159,500
	14.218	B-91-UC-53-0002	165,700
Community Development Block - Entitlement Grant Cluster 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 - Entitlement Grant Cluster 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 Community Development Block - Entitlement Grant Cluster			3,117,522

THE RESCUE MISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

Year Ended June 30, 2018

<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 City of Tacoma Human Rights and Services Department	14.231	None	\$ <u>40,000</u>
Total			<u>40,000</u>
Total U.S. Department of Housing and Urban Development			3,157,522
U.S. Department of Homeland Security			
Department of Homeland Security Direct Programs Emergency Food and Shelter National Board Program	97.024	Phase 34	48,500
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-BEDA-18	<u>67,538</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u><u>3,273,560</u></u>

THE RESCUE MISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

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, 2018. 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 consolidated financial statements. The following is a reconciliation of the difference:

Total expenditures of federal awards	\$ 3,273,560
Less loan balances outstanding	(3,067,675)
Add nonfederal revenue	<u>772,125</u>
Total Grant Revenue per Accompanying Statement of Activities	\$ <u>978,010</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
Jefferson Apartments	14.218	325,200
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 consolidated financial statement of The Rescue Mission (the "Mission"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated March 26, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mission's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Mission's consolidated 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Board of Directors
The Rescue Mission

Compliance and Other Matters

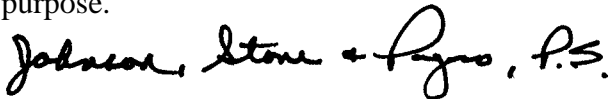
As part of obtaining reasonable assurance about whether the Mission's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct 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*.

Response to Findings

The Rescue Mission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Mission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

March 26, 2019



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 Mission's major federal program for the year ended June 30, 2018. The 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 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 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 Mission's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2018.

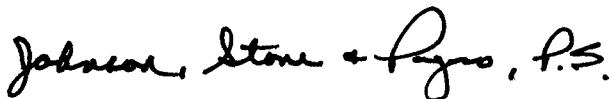
Report on Internal Control over Compliance

Management of the 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 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 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.

March 26, 2019

THE RESCUE MISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2018

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?	Yes
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 Cluster	
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, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

2018-001 Controls over accounting - Rescue Maintenance Services, LLC

Criteria

Internal control policies and procedures were not implemented to prevent transactions, including cash, revenues and expenses from being incorrectly recorded.

Condition

Cash accounts in the general ledger did not reconcile to the cash reconciliation and entries were deleted, which resulted in misstatements in Rescue Maintenance Services, LLC's financial statements.

Context

Rescue Maintenance Services, LLC's financial statements are not material in relation to the consolidated financial statements as a whole, however internal controls were not in place to correct errors in reconciling and recording cash transactions.

Cause

Procedures were not followed to record transactions properly and to ensure that no transactions were deleted after posting.

Effect

The cash account had entries deleted after reconciliations were completed. This resulted in the cash balances in the general ledger not reconciling to the bank reconciliation and improper recording of revenue and expenses.

Auditor's Recommendations

We recommend that internal controls should be implemented to provide supervision and oversight of Rescue Maintenance Services, LLC's accounting procedures, including the use of an outside bookkeeper to maintain the records to prevent the improper recording and deletion of transactions.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.



CORRECTIVE ACTION PLAN IN RESPONSE TO:

Schedule of Audit Findings and Questioned Costs
Year Ended December 31, 2018

Section II - Financial Statement Findings

2018-001 Controls over accounting - Rescue Maintenance Services, LLC

Finding

Internal control policies and procedures were not implemented to prevent transactions, including cash, revenues and expenses from being incorrectly recorded.

Auditor's Recommendation

We recommend that internal controls should be implemented, including the use of an outside bookkeeper to maintain the records to prevent the improper recording and deletion of transactions.

Action Plan

Rescue Services was established to explore the creation of job opportunities for individuals served through the Mission's recovery programs. While Tacoma Rescue Mission explored job creation to supplement its recovery programs, the administrative effort and financial resources necessary to sustain this enterprise and its needed oversight exceeded projections. Tacoma Rescue Mission has shuttered the operation of Rescue Services. Its operating losses were incidental to the operations of Tacoma Rescue Mission.