

LEXINGTON RESCUE MISSION, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2016 AND 2015

LEXINGTON RESCUE MISSION, INC.
LEXINGTON, KENTUCKY

CONTENTS

	<u>Page(s)</u>
Independent Auditors' Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to the Financial Statements	8 - 13

KRING, RAY, FARLEY & RIDDLE, PSC

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lexington Rescue Mission, Inc.
Lexington, Kentucky

We have audited the accompanying financial statements of Lexington Rescue Mission, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Lexington Rescue Mission, Inc., as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Lexington Rescue Mission, Inc., as of December 31, 2015, were audited by other auditors whose report dated July 11, 2016, expressed an unmodified opinion on those statements.

Kring, Ray, Farley & Riddle, PSC

Lexington, Kentucky
May 23, 2017

LEXINGTON RESCUE MISSION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 224,356	\$ 297,600
Accounts receivable:		
Trade	3,714	-
Pledges	9,940	10,342
Prepaid expenses and other current assets	16,432	10,362
	254,442	318,304
Total Current Assets	254,442	318,304
PROPERTY AND EQUIPMENT, net	341,892	268,931
INTANGIBLE ASSETS, net	5,773	8,660
	\$ 602,107	\$ 595,895
TOTAL ASSETS	\$ 602,107	\$ 595,895
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Current portion of notes payable	\$ 8,938	\$ 7,535
Accounts payable and accrued expenses	21,421	35,327
Payroll liabilities	28,450	10,016
	58,809	52,878
Total Current Liabilities	58,809	52,878
NOTE PAYABLE, less current portion	194,225	218,885
	253,034	271,763
Total Liabilities	253,034	271,763
NET ASSETS:		
Unrestricted	326,459	305,074
Temporarily restricted	22,614	19,058
	349,073	324,132
Total Net Assets	349,073	324,132
TOTAL LIABILITIES AND NET ASSETS	\$ 602,107	\$ 595,895

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

LEXINGTON RESCUE MISSION, INC.
STATEMENTS OF ACTIVITIES
For The Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED REVENUES, GAINS, AND SUPPORT:		
Program services	\$ 141,152	\$ 35,319
Contributions	1,084,487	1,003,144
Foundation grants and awards	15,605	20,709
Fall banquet	47,588	52,816
In-kind donations	6,986	-
Other revenue	4,541	3,394
Gain from insured loss	-	5,931
	<hr/>	<hr/>
Total Unrestricted Revenues, Gains, and Support	1,300,359	1,121,313
Net Assets Released from Restrictions	<hr/> 139,256	<hr/> 137,759
Total Unrestricted Revenues, Gains, Support, and Reclassifications	<hr/> 1,439,615	<hr/> 1,259,072
EXPENSES:		
Program services	880,195	608,913
Management and general	115,886	170,721
Fundraising	422,149	330,270
	<hr/>	<hr/>
Total Expenses	1,418,230	1,109,904
INCREASE IN UNRESTRICTED NET ASSETS	<hr/> 21,385	<hr/> 149,168
TEMPORARILY RESTRICTED REVENUE, GAINS, SUPPORT, AND RECLASSIFICATIONS:		
Contributions:		
Homeless Prevention Program	37,311	34,167
Klothes for Kids	12,573	11,924
Other	25,428	24,936
Grants	67,500	85,790
	<hr/>	<hr/>
Total Temporarily Restricted Revenue, Gains and Support	142,812	156,817
Net Assets Released from Restrictions	<hr/> (139,256)	<hr/> (137,759)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<hr/> 3,556	<hr/> 19,058
CHANGE IN TOTAL NET ASSETS	24,941	168,226
Net Assets, Beginning of Year	<hr/> 324,132	<hr/> 155,906
Net Assets, End of Year	<hr/> <u>\$ 349,073</u>	<hr/> <u>\$ 324,132</u>

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

LEXINGTON RESCUE MISSION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended December 31, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, wages, and benefits	\$ 540,687	\$ 92,712	\$ 81,636	\$ 715,035
Professional fundraising services	-	-	263,080	263,080
Rent	15,250	-	-	15,250
Homeless Prevention and Assistance Program	58,503	-	-	58,503
Other program expenses	76,941	-	-	76,941
Utilities	19,641	1,612	806	22,059
Office supplies	14,739	832	1,655	17,226
Fall banquet	-	-	19,333	19,333
Insurance	17,567	1,950	6,098	25,615
Depreciation and amortization	17,080	-	2,887	19,967
Staffing service expense	7,856	-	-	7,856
Bank and credit card fees	3,844	1,499	3,449	8,792
Interest expense	11,106	843	431	12,380
Telephone	13,076	494	247	13,817
Computer services and software licenses	5,539	2,703	10,389	18,631
Postage	1,017	66	11,574	12,657
Repairs and maintenance	39,197	-	106	39,303
Printing	3,955	176	11,437	15,568
Professional services	5,552	866	2,708	9,126
Vehicle	7,187	-	-	7,187
Dues and subscriptions	2,954	461	1,440	4,855
Travel	9,293	22	194	9,509
Small equipment	2,728	-	181	2,909
Security expense	1,114	71	35	1,220
Miscellaneous	5,264	10,878	525	16,667
Walk for Warmth	-	-	3,761	3,761
Books and tapes	105	701	177	983
Total Expenses	<u>\$ 880,195</u>	<u>\$ 115,886</u>	<u>\$ 422,149</u>	<u>\$ 1,418,230</u>

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

LEXINGTON RESCUE MISSION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended December 31, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, wages, and benefits	\$ 351,092	\$ 133,099	\$ 44,980	\$ 529,171
Professional fundraising services	-	-	229,198	229,198
Rent	1,750	-	-	1,750
Homeless Prevention and Assistance Program	56,832	-	-	56,832
Other program expenses	50,521	-	-	50,521
Utilities	20,066	1,640	197	21,903
Office supplies	16,499	2,618	588	19,705
Fall banquet	-	-	15,276	15,276
Insurance	14,468	6,368	3,554	24,390
Depreciation and amortization	16,708	-	-	16,708
Staffing service expense	14,224	-	-	14,224
Bank and credit card fees	8,216	3,280	1,830	13,326
Interest expense	11,502	1,353	677	13,532
Telephone	9,204	474	96	9,774
Computer services and software licenses	1,540	5,924	4,982	12,446
Postage	-	57	10,987	11,044
Repairs and maintenance	16,453	-	151	16,604
Printing	2,678	335	10,905	13,918
Professional services	4,449	1,958	1,093	7,500
Vehicle	3,997	-	-	3,997
Dues and subscriptions	2,524	1,111	620	4,255
Travel	2,009	1,229	188	3,426
Small equipment	1,930	-	-	1,930
Security expense	1,343	89	44	1,476
Miscellaneous	851	10,477	1,381	12,709
Walk for Warmth	-	-	3,523	3,523
Books and tapes	57	709	-	766
Total Expenses	<u>\$ 608,913</u>	<u>\$ 170,721</u>	<u>\$ 330,270</u>	<u>\$ 1,109,904</u>

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

LEXINGTON RESCUE MISSION, INC.
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 24,941	\$ 168,226
Adjustment to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	19,967	16,708
(Increase) decrease in operating assets:		
Accounts receivable, net	(3,312)	(2,738)
Prepaid expenses and other current assets	(6,070)	(297)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(13,906)	21,538
Payroll liabilities	18,434	(5,609)
	<u>40,054</u>	<u>197,828</u>
Net Cash Provided by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of vehicle	-	2,100
Purchases of fixed assets	(90,041)	(27,051)
Purchase of intangible assets	-	(5,586)
	<u>(90,041)</u>	<u>(30,537)</u>
Net Cash Used in Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(23,257)	(7,104)
	<u>(23,257)</u>	<u>(7,104)</u>
Net Cash Used in Financing Activities		
Net Increase (Decrease) in Cash	(73,244)	160,187
Cash, beginning of year	<u>297,600</u>	<u>137,413</u>
Cash, end of year	<u>\$ 224,356</u>	<u>\$ 297,600</u>
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	<u>\$ 12,380</u>	<u>\$ 13,532</u>

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

LEXINGTON RESCUE MISSION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization - Lexington Rescue Mission, Inc. (the Organization), was incorporated on April 2, 2001, for charitable, educational and scientific purposes including, without limitation of the foregoing, the proclamation of the Gospel of Jesus Christ by conducting compassionate rescue mission work in the City of Lexington, Kentucky, and the surrounding area. The Organization provides food, clothing, education, employment, financial assistance, health care, and spiritual care to those in need.

Financial Statement Presentation - The Organization prepares its financial statements in accordance with generally accepted accounting principles for non-profit organizations, which require the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

a) Unrestricted net assets encompass the portion of net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations, and are available for the general operations of the Organization.

b) Temporarily restricted net assets are the net assets resulting from contributions and other inflows whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

c) Permanently restricted net assets are the net assets resulting from contributions whose use by the Organization is limited by the donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. As of December 31, 2016 and 2015, the Organization did not have any net assets which were permanently restricted.

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of any time or donor-imposed restrictions.

The Organization reports gifts of land, building and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Accounts Receivable - The Organization's accounts receivable at December 31, 2016 and 2015 include pledges receivable and employment service charges. The Organization provides an allowance for doubtful accounts on receivables, based on a review of the current status of existing receivables and management's evaluation of collection. As of December 31, 2016 and 2015, management determined an allowance for doubtful accounts on receivables was not considered necessary. There was no bad debt expense for both years ended December 31, 2016 and 2015.

LEXINGTON RESCUE MISSION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property and Equipment - Property and equipment are stated at cost and donated items are stated at fair value at the time of donation. When items are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts with any resulting gain or loss reflected in the accompanying Statements of Activities. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight-line basis. Maintenance and repairs are expensed as incurred.

Income Tax - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, however, the Organization is not exempt from tax imposed upon unrelated activity income. The Organization currently has no unrelated business income and accordingly, no provision for income taxes has been recorded.

The Organization does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits or possible related interest or penalties. The Organization generally is no longer subject to income tax examinations by tax authorities for years before 2013.

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

Donated Services - The Organization received volunteer services throughout the year that are not recognized as contributions in the accompanying financial statements since these services are not susceptible to objective measurement or valuation.

Compensated Absences - The Organization has a sick pay policy for full-time staff. The Organization has not accrued an amount for compensated absences in that the amount to be used, if any, cannot be reasonably estimated.

In-Kind Donations - The Organization receives donations of food, household items, and supplies throughout the year for use in its various programs. Recognition in the accompanying financial statements for these items only occurs when an objective method of valuation exists. Perishable items are not recognized.

Reclassifications - Certain amounts presented for the prior year have been reclassified to conform to the presentation used in the current year. Net assets were not changed as a result of these reclassifications.

LEXINGTON RESCUE MISSION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE B - PROPERTY AND EQUIPMENT:

At December 31, 2016 and 2015, the property and equipment accounts reflect the following balances:

	<u>2016</u>	<u>2015</u>
Non-Depreciating Assets:		
Land	\$ 1,500	\$ 1,500
North Broadway Project	55,890	-
Depreciating Assets:		
Land improvements	4,332	4,332
Buildings	177,772	177,772
Building improvements	160,641	156,767
Furniture and equipment	69,490	61,199
Vehicles	42,136	20,150
	511,761	421,720
Less: Accumulated Depreciation	(169,869)	(152,789)
	\$ 341,892	\$ 268,931

Depreciation expense for the years ended December 31, 2016 and 2015, was \$17,080 and \$16,708, respectively.

The North Broadway Project consists of purchase costs and funding fees related to the acquisition of real estate which was completed in March 2017. See Note J.

NOTE C - INTANGIBLE ASSETS:

Intangible assets consist solely of third-party development software. For both December 31, 2016 and 2015, the Organization had \$8,660 of capitalized software fees. The software was implemented in December 2015. Amortization expense for the year ended December 31, 2016, was \$2,887.

NOTE D - LINE OF CREDIT:

The Organization maintains a line of credit with Bank of the Bluegrass & Trust Co. to provide short-term financing during cash flow shortages. The line is authorized up to \$47,000, bears an initial rate of interest of 7.1% (3.6% over the index rate), matures April 20, 2019, and is secured by the second mortgage, an assignment of rents and leases, and an assignment of a life insurance policy on the Executive Director. There was no balance on the line of credit as of December 31, 2016 and 2015.

LEXINGTON RESCUE MISSION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE E - NOTE PAYABLE:

The Organization was obligated on the following note payable as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Bank of the Bluegrass & Trust Co. mortgage note, interest rate of 5.875%, monthly payments of \$1,720 including principal and interest, final payment of remaining principal balance due April 2, 2018, collateralized by first mortgage, assignment of rents and leases, and assignment of life insurance policy on the Executive Director.	\$ 203,163	\$ 226,420
Less current portion	<u>(8,938)</u>	<u>(7,535)</u>
Net Long-Term Note Payable	<u>\$ 194,225</u>	<u>\$ 218,885</u>

At December 31, 2016, future maturities on notes payable are as follows:

2017	\$ 8,938
2018	<u>194,225</u>
Total	<u>\$ 203,163</u>

NOTE F - OPERATING LEASES:

During 2016, the Organization entered into a lease agreement for office space which requires monthly rental payments of \$1,500. The lease expires March 2017. Rent expense under this agreement during 2016 was \$13,500. Future commitments under this lease agreement are \$4,500 during 2017.

NOTE G - ENDOWMENT:

During 2014, the Organization was named an income beneficiary of an endowment from Blue Grass Community Foundation, Inc. (the Foundation). The Foundation maintains complete control of the endowment. Accordingly, the Organization does not recognize any activity related to this endowment unless the Foundation releases a portion of the funds to the Organization. The balance of the endowment was \$38,027 and \$8,599, as of December 31, 2016 and 2015, respectively.

NOTE H - FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing the various programs and support services have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs are allocated among the programs and supporting services benefited. The method of allocation for these costs has not changed from prior years.

LEXINGTON RESCUE MISSION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE H - FUNCTIONAL ALLOCATION OF EXPENSES (Continued):

Expenses associated with the various programs of the Organization for the years ended December 31, 2016 and 2015, are summarized as follows:

	<u>2016</u>	<u>2015</u>
Community Care	\$ 146,559	\$ 125,454
Reentry Services	52,628	4,493
Restorative Ministries	160,048	126,955
Outreach Services	209,191	171,163
Advance Lexington	124,141	33,420
Employment Services	73,136	62,660
Other	<u>114,492</u>	<u>84,768</u>
Total Program Expenses	<u>\$ 880,195</u>	<u>\$ 608,913</u>

NOTE I - PENSION PLAN:

During 2016, Lexington Rescue Mission, Inc., implemented a 401(k) retirement plan (the Plan) for employees who are 21 years of age and have worked at the Organization for at least 260 hours. The Organization matches contributions up to 3% of each qualified employee's annual gross wages. The matching contributions vest pro-ratably over a 3-year period with all contributions being fully vested after Year Three of participation. The Organization's contributions to the Plan during 2016 were \$4,437.

NOTE J - SUBSEQUENT EVENTS:

Subsequent to December 31, 2016, the Organization entered into a loan agreement with PNC Bank in the amount of \$650,000 to purchase and renovate real estate located at 629 North Broadway in Lexington, Kentucky, significantly expanding the Organization's operations. The loan accrues interest at prime plus 1%, requires monthly interest payments, matures December 24, 2017, and is secured by a mortgage on the property. This loan also requires the Organization to fund \$131,075 towards the purchase of the property at the closing of the loan. In April 2017, the Lexington-Fayette Urban County Government Office of Homelessness Prevention and Intervention approved a one-time matching grant in the amount \$55,000 to be used exclusively for the acquisition and renovation of the North Broadway project in satisfaction of the funding requirements of the loan agreement.

Subsequently, the Organization secured a direct subsidy grant through the Affordable Housing Program from the Federal Home Loan Bank in the amount of \$650,000 that will be used to make the principal payments on the PNC Bank loan. This subsidy grant has various restrictions the Organization must follow for fifteen years from the date of the project's completion. Failure to follow these restrictions during this period would require the Organization to return the full amount of the subsidy grant to the Federal Home Loan Bank.

LEXINGTON RESCUE MISSION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE K - MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS:

The Organization has evaluated and considered the need to recognize or disclose subsequent events through May 23, 2017, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2016, have not been evaluated by the Organization.