

A6a: DRMM Most Recent Financial Statements

**Detroit Rescue Mission Ministries
and Lakeview Farms Mission**

Financial Statements

September 30, 2015 and 2014

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Independent Auditors' Report

To the Board of Directors
Detroit Rescue Mission Ministries
and Lakeview Farms Mission
Detroit, MI

Report on the Financial Statements

We have audited the accompanying combined financial statements of Detroit Rescue Mission Ministries and Lakeview Farms Mission (collectively the Organization) (a nonprofit organization) which comprise the combined statement of financial position as of September 30, 2015 and 2014, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined 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 audits. We conducted our audits 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 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Detroit Rescue Mission Ministries and Lakeview Farms Mission as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2016, on our consideration of Detroit Rescue Mission Ministries and Lakeview Farms 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 Detroit Rescue Mission Ministries and Lakeview Farms Mission's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Ann Arbor, MI
June 8, 2016

**Detroit Rescue Mission Ministries
and Lakeview Farms Mission
Combined Statement of Financial Position
September 30, 2015 and 2014**

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$ 2,180,350	\$ 1,050,826
Investments	11,308	11,673
Accounts receivable		
Federal and other governmental programs	1,757,009	3,613,231
Related party receivables	561,792	92,009
Other receivables	463,616	3,421
Inventories - contributed goods	196,579	355,782
Prepaid expenses	160,825	109,722
Total current assets	5,331,479	5,236,664
Land, building and equipment - net	18,204,341	18,457,172
Other assets		
Cash surrender value of life insurance	289,924	300,047
Other assets	4,349	4,520
Total other assets	294,273	304,567
Total assets	\$ 23,830,093	\$ 23,998,403
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 502,972	\$ 316,230
Other accrued expenses	226	915
Accrued payroll and employee benefits	375,026	318,515
Incurred but not reported health claims	202,670	316,923
Current portion of long-term debt	72,526	74,605
Total current liabilities	1,153,420	1,027,188
Long-term debt - net of current portion	361,628	434,154
Total liabilities	1,515,048	1,461,342
Net assets		
Unrestricted		
Undesignated	4,479,569	4,561,887
Net investment in land, buildings and equipment (net)	17,770,187	17,948,413
Total unrestricted	22,249,756	22,510,300
Temporarily restricted	65,289	26,761
Total net assets	22,315,045	22,537,061
Total liabilities and net assets	\$ 23,830,093	\$ 23,998,403

See Accompanying Notes to the Combined Financial Statements

**Detroit Rescue Mission Ministries
and Lakeview Farms Mission
Combined Statement of Activities
For the Years Ended September 30, 2015 and 2014**

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Contributions	\$ 5,885,909	\$ 228,638	\$ 6,114,547	\$ 5,884,539	\$ 269,314	\$ 6,153,853
Gifts in-kind	2,572,990	-	2,572,990	2,938,707	-	2,938,707
Federal, state and local program revenue	9,835,313	-	9,835,313	11,132,833	-	11,132,833
Rental income	186,322	-	186,322	166,975	-	166,975
Other income	264,188	-	264,188	258,047	-	258,047
Net assets released from restrictions	190,110	(190,110)	-	364,096	(364,096)	-
Total support and revenue	18,934,832	38,528	18,973,360	20,745,197	(94,782)	20,650,415
Expenses						
Program services						
Detroit Rescue Mission Ministries						
Housing	7,863,985	-	7,863,985	9,135,704	-	9,135,704
Shelter	838,899	-	838,899	912,302	-	912,302
Treatment	2,796,099	-	2,796,099	2,781,030	-	2,781,030
Spiritual life	44,602	-	44,602	329,246	-	329,246
Outreach	1,490,095	-	1,490,095	1,269,475	-	1,269,475
Community distribution	2,086,563	-	2,086,563	929,440	-	929,440
Lakeview Farms Mission	924,289	-	924,289	724,823	-	724,823
Total program services	16,044,532	-	16,044,532	16,082,020	-	16,082,020
Supporting activities						
Administration	1,985,956	-	1,985,956	1,987,703	-	1,987,703
Development	1,164,888	-	1,164,888	1,139,072	-	1,139,072
Total supporting activities	3,150,844	-	3,150,844	3,126,775	-	3,126,775
Total expenses	19,195,376	-	19,195,376	19,208,795	-	19,208,795
Change in net assets	(260,544)	38,528	(222,016)	1,536,402	(94,782)	1,441,620
Net assets - beginning of the year	22,510,300	26,761	22,537,061	20,973,898	121,543	21,095,441
Net assets - end of the year	\$ 22,249,756	\$ 65,289	\$ 22,315,045	\$ 22,510,300	\$ 26,761	\$ 22,537,061

See Accompanying Notes to the Combined Financial Statements

**Detroit Rescue Mission Ministries
and Lakeview Farms Mission
Combined Statement of Functional Expenses
For the Year Ended September 30, 2015**

	Program Services							Supporting Activities					
	Detroit Rescue Mission Ministries							Lakeview Farms Mission	Total Program Services	Administration	Development	Total Supporting Activities	Total
	Housing	Shelter	Treatment	Spiritual Life	Outreach	Community Distribution	Total DRMM						
Salaries	\$ 3,172,044	\$368,327	\$1,288,875	\$ 34,604	\$ 512,058	\$ -	\$ 5,375,908	\$ 443,216	\$ 5,819,124	\$ 980,604	\$ 85,033	\$1,065,637	\$ 6,884,761
Employee benefits	958,685	99,983	589,575	6,287	126,098	-	1,780,628	65,926	1,846,554	259,998	14,058	274,056	2,120,610
Operating expenses	337,781	36,596	133,716	1,490	184,576	-	694,159	156,721	850,880	337,625	14,668	352,293	1,203,173
Gifts in-kind distribution	232,543	72,961	89,542	-	202,635	2,086,563	2,684,244	283	2,684,527	-	-	-	2,684,527
Utilities	736,359	44,756	168,708	1,836	121,070	-	1,072,729	64,406	1,137,135	104,209	11,013	115,222	1,252,357
Direct mail, radio, TV, and newspapers	-	-	-	-	7,397	-	7,397	1,734	9,131	42,619	1,034,413	1,077,032	1,086,163
Depreciation	865,485	756	262,167	-	55,484	-	1,183,892	40,306	1,224,198	83,874	-	83,874	1,308,072
Food/kitchen	203,506	99,718	45,843	-	16,999	-	366,066	31,719	397,785	850	-	850	398,635
Repairs and maintenance	1,239,669	106,705	181,593	-	226,098	-	1,754,065	66,818	1,820,883	82,215	5,703	87,918	1,908,801
Bad debt	-	-	-	-	-	-	-	-	-	54	-	54	54
Insurance	98,606	7,658	29,154	385	13,963	-	149,766	33,046	182,812	42,903	-	42,903	225,715
Office expense	19,307	1,439	6,926	-	21,541	-	49,213	17,614	66,827	34,728	-	34,728	101,555
Interest expense	-	-	-	-	-	-	-	-	-	15,540	-	15,540	15,540
Miscellaneous	-	-	-	-	2,176	-	2,176	2,500	4,676	737	-	737	5,413
Total operating expenses	\$ 7,863,985	\$838,899	\$2,796,099	\$ 44,602	\$ 1,490,095	\$ 2,086,563	\$15,120,243	\$ 924,289	\$ 16,044,532	\$ 1,985,956	\$ 1,164,888	\$3,150,844	\$19,195,376

See Accompanying Notes to the Combined Financial Statements

**Detroit Rescue Mission Ministries
and Lakeview Farms Mission
Combined Statement of Functional Expenses
For the Year Ended September 30, 2014**

	Program Services							Supporting Activities					
	Detroit Rescue Mission Ministries							Lakeview Farms Mission	Total Program Services	Administration	Development	Total Supporting Activities	Total
	Housing	Shelter	Treatment	Spiritual Life	Outreach	Community Distribution	Total DRMM						
Salaries	\$3,299,054	\$ 357,403	\$1,371,380	\$ 45,149	\$ 473,164	\$ -	\$ 5,546,150	\$ 309,016	\$ 5,855,166	\$ 941,017	\$ 93,896	\$1,034,913	\$ 6,890,079
Employee benefits	1,080,171	94,134	358,674	11,180	101,850	-	1,646,009	58,456	1,704,465	272,397	16,023	288,420	1,992,885
Operating expenses	514,983	21,919	98,207	1,408	350,793	-	987,310	70,209	1,057,519	359,325	29,928	389,253	1,446,772
Gifts in-kind distribution	1,352,901	220,955	390,735	269,903	-	929,440	3,163,934	2,075	3,166,009	-	-	-	3,166,009
Utilities	665,585	39,546	138,640	1,422	128,861	-	974,054	65,894	1,039,948	142,276	8,531	150,807	1,190,755
Direct mail, radio, TV, and newspapers	185	-	-	-	-	-	185	1,963	2,148	254	975,972	976,226	978,374
Depreciation	941,497	10,210	180,246	-	47,327	-	1,179,280	47,525	1,226,805	82,811	-	82,811	1,309,616
Food/kitchen	192,699	79,490	47,021	-	23,253	-	342,463	35,906	378,369	-	-	-	378,369
Repairs and maintenance	796,097	29,422	99,289	99	112,278	-	1,037,185	66,420	1,103,605	108,892	14,379	123,271	1,226,876
Bad debt	-	50,709	69,817	-	270	-	120,796	-	120,796	-	-	-	120,796
Insurance	98,919	8,071	24,919	70	21,545	-	153,524	27,648	181,172	33,641	-	33,641	214,813
Office expense	193,545	443	2,102	15	9,173	-	205,278	39,711	244,989	23,972	343	24,315	269,304
Interest expense	-	-	-	-	-	-	-	-	-	17,958	-	17,958	17,958
Miscellaneous	68	-	-	-	961	-	1,029	-	1,029	5,160	-	5,160	6,189
Total operating expenses	<u>\$9,135,704</u>	<u>\$ 912,302</u>	<u>\$2,781,030</u>	<u>\$ 329,246</u>	<u>\$1,269,475</u>	<u>\$ 929,440</u>	<u>\$ 15,357,197</u>	<u>\$ 724,823</u>	<u>\$ 16,082,020</u>	<u>\$ 1,987,703</u>	<u>\$ 1,139,072</u>	<u>\$3,126,775</u>	<u>\$ 19,208,795</u>

See Accompanying Notes to the Combined Financial Statements

**Detroit Rescue Mission Ministries
and Lakeview Farms Mission
Combined Statement of Cash Flows
For the Years Ended September 30, 2015 and 2014**

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	\$ (222,016)	\$ 1,441,620
Adjustments to reconcile change in net assets to net cash provided by operations		
Increase (Decrease) in cash surrender value of life insurance	10,123	(14,121)
Depreciation	1,308,072	1,309,616
Net realized and unrealized (gain) loss on investments	365	(6,537)
Net (gain) loss on disposal of assets	-	625
Bad debt expense	54	120,796
Inventories - contributed goods	159,203	7,181
Increase (decrease) in:		
Accounts receivable	926,190	(472,120)
Prepaid expenses	(51,103)	25,831
Other assets	171	(4,520)
Accounts payable	186,742	(358,100)
Other accrued expenses	(689)	(248)
Accrued payroll and employee benefits	56,511	(37,903)
Incurred but not reported health claims	(114,253)	316,923
	<u>2,259,370</u>	<u>2,329,043</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Purchase of land, building and equipment	(1,055,241)	(1,096,565)
Cash Flows from Financing Activities		
Payments on line of credit	-	(335,340)
Payments on long-term debt	(74,605)	(72,188)
	<u>(74,605)</u>	<u>(407,528)</u>
Net cash used by financing activities		
Change in cash and cash equivalents	1,129,524	824,950
Cash and cash equivalents, beginning of year	1,050,826	225,876
Cash and cash equivalents, end of year	\$ 2,180,350	\$ 1,050,826
Supplemental Data		
Cash paid for interest	\$ 15,540	\$ 17,958

See Accompanying Notes to the Combined Financial Statements

**Detroit Rescue Mission Ministries
and Lakeview Farms Mission**
Notes to the Combined Financial Statements
September 30, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies

Nature of Activities

Detroit Rescue Mission Ministries and Lakeview Farms Mission (collectively, the Organization) are non-profit organizations that provide food, shelter and counseling to underprivileged individuals in the Detroit inner-city area. In addition to the traditional homeless shelter activities, the Organization also operates transitional housing facilities, drug and alcohol rehabilitation programs, and a camp. The Organization's revenue is derived principally from governmental grants and public contributions. The organizations comprising the Organization share a common Board of Directors.

Basis of Accounting

The combined financial statements of the Organization have been prepared using the accrual basis of accounting. The preparation of combined financial statements is in accordance with accounting principles generally accepted in the United States of America.

Principles of Combination

The combined financial statements include the operations of Detroit Rescue Mission Ministries and Lakeview Farms Mission. All significant intercompany balances and transactions have been eliminated.

Financial Statement Presentation

Net assets of the Organization and changes therein, are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. There are no permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Cash and Cash Equivalents

The Organization considers all cash on deposit and highly liquid investments purchased with an original maturity of three months or less as cash and cash equivalents. As of September 30, 2015 \$848,782 of cash and cash equivalents was in excess of the amount insured by the FDIC.

Investments

Investments are stated at fair value based on a quoted price in active markets. Realized gains and losses on sales of investments represent the difference between the net sales price and the cost of securities sold. Unrealized gains and losses on investments represent the net change for the reported year in unrealized appreciation between the balance of the beginning and the end of the year. Donated investments are reflected as contributions at their fair values at date of receipt.

**Detroit Rescue Mission Ministries
and Lakeview Farms Mission
Notes to the Combined Financial Statements
September 30, 2015 and 2014**

Accounts Receivable

The Organization's accounts receivable are related to various programs and grants and are due within one year. It is the opinion of management that the receivables will be fully collected. Management uses historical collection and aging of receivables to estimate allowances for doubtful accounts. There is no allowance for doubtful accounts for the years ended September 30, 2015 and 2014.

Management's policy for determining when receivables should be included in the allocation for doubtful accounts is on a case by case basis. Accounts are written-off when a funding agency indicates that funds are no longer available. Additionally, if an amount is deemed uncollectible due to the age of the receivable, it will be written-off at that time. Due to the nature of the receivables, balances are unsecured, interest is not charged, and accounts are not turned over to collection.

Inventory

Inventories are stated at the lower of market value or cost determined by the first-in, first-out method. Contributions of inventory are reported at estimated fair market value at the date of donation. Donated goods inventory consists primarily of nonperishable food, used furniture, clothing and other household goods.

Prepaid Expenses

Prepaid expenses are amounts paid in advance for future expenses. All amounts are expected to be utilized in one year.

Property and Equipment

Land, buildings and equipment are reported at cost, or, if donated, at the estimated fair value at the date of the donation. Property and equipment purchases over \$5,000 are capitalized. Purchases less than \$5,000 are expensed as incurred. Depreciation of the buildings and equipment is reported using the straight-line method over the estimated useful lives of the assets, which range from five to thirty years. Certain assets purchased with federal funds may be restricted as to their use and may revert back to the funding agency upon dissolution of the Organization or the related program.

Gifts of land, buildings, equipment and other long-lived assets are also reported as unrestricted revenue and net assets, unless subject to time restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations or restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Donated Services and Goods

The Organization records the value of donated goods as contributions using estimated fair values at the date of receipt. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills and would typically need to be purchased if not provided by donation are recorded at their value values in the period received. The Organization recognized donated supplies and services of \$2,572,990 and \$2,938,707 for the years ended September 30, 2015 and 2014, respectively.

While a significant amount of volunteered services were received, many of those services do not meet the criteria to record as donated services.

Functional Expenses

The allocation of expenses to the functional programs and management and general categories was computed using allocation percentages historically used during preparation of the Organization's budget. Management believes this is a reasonable approximation of the actual costs of the programs.

**Detroit Rescue Mission Ministries
and Lakeview Farms Mission
Notes to the Combined Financial Statements
September 30, 2015 and 2014**

Income Tax Status

The Organization is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is classified as an organization other than a private foundation, as described in Section 509(a).

Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through June 8, 2016, which is the date the financial statements were available to be issued.

Note 2 - Land, Building and Equipment

Major classes of assets and related accumulated depreciation thereon are summarized as follows:

	2015	2014
Land	\$ 1,047,710	\$ 1,047,710
Land improvements	482,260	417,931
Buildings and building improvements	26,060,821	24,903,864
Furniture and equipment	3,249,126	3,249,126
Vehicles	509,251	531,165
Livestock	3,300	3,300
	31,352,468	30,153,096
Less accumulated depreciation	(13,751,159)	(12,474,501)
	17,601,309	17,678,595
Construction in progress	603,032	778,577
Net land, building and equipment	\$ 18,204,341	\$ 18,457,172

Depreciation expense for September 30, 2015 and 2014 was \$1,308,072 and \$1,309,616, respectively.

Note 3 - Line of Credit

The Organization has a revolving line-of-credit agreement providing for maximum borrowings of \$1,000,000, collateralized with a blanket lien on all assets. The interest rate is variable and was 3.25 percent at September 30, 2015 and 2014. Total outstanding borrowings from this line-of-credit at both September 30, 2015 and 2014, was \$0.

**Detroit Rescue Mission Ministries
and Lakeview Farms Mission
Notes to the Combined Financial Statements
September 30, 2015 and 2014**

Note 4 - Notes Payable

	2015	2014
Mortgage payable, secured by the real properties of Lakeview Farms Mission, due in monthly installments of \$7,520, including interest at the bank's prime rate (effective rate of 2.74% per annum at September 30, 2015), maturing December 1, 2015. The loan was refinanced December 11, 2015 with a new maturity date of December 1, 2020	\$ 434,154	\$ 508,759
Less current portion	(72,526)	(74,605)
Long term note payable	\$ 361,628	\$ 434,154

Interest expenses for 2015 and 2014, amounted to \$15,540 and \$17,958, respectively.

Annual note maturities are scheduled as follows:

For the year ended December 31,	
2016	\$ 72,526
2017	81,342
2018	83,600
2019	85,922
2020	88,307
Thereafter	22,457
	\$ 434,154

Note 5 - Retirement Plan

The Organization has a defined contribution plan (the Plan) as defined under Section 403(b) of the U.S. Internal Revenue Code covering all employees normally working 20 hours or more per week. Eligible employees are able to begin contributing on their first day of employment with the Organization. Employees may not receive matching contributions until they complete 1,000 hours of service during the plan year and are employed on the last day of the plan year. The Organization may contribute a discretionary matching contribution each year. The match percentage includes only elective deferrals up to 100% match up to \$250 per year of each employee's compensation. Employees are 100% invested in all accounts at all times. The total expense for the years ended September 30, 2015 and 2014 was approximately \$39,910 and \$32,202, respectively.

**Detroit Rescue Mission Ministries
and Lakeview Farms Mission
Notes to the Combined Financial Statements
September 30, 2015 and 2014**

Note 6 - Operating Leases

The Organization leases office equipment under an operating lease agreement that expires in 2019. Future minimum lease payments consist of the following:

2016	\$	36,864
2017		36,864
2018		36,864
2019		<u>30,720</u>
Total	\$	<u>141,312</u>

Lease expense for 2015 and 2014 was \$36,864 and \$68,148, respectively.

Note 7 - Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	<u>2015</u>		<u>2014</u>
Detroit Rescue Mission - various projects	\$ 61,665	\$	23,137
Oasis	668		668
Women's Shelter (Genesis House II)	<u>2,956</u>		<u>2,956</u>
	<u>\$ 65,289</u>	\$	<u>26,761</u>

Note 8 - Related Party Transactions

The Organization's president is one of the three board members of SAY Detroit. The purpose of SAY Detroit is to help the homeless population in Detroit and assist the agencies who take care of them, with the goal of protecting, feeding, and sheltering the homeless, and ultimately returning them to everyday society as independent and productive individuals.

The Organization provides for the operations of the SAY Detroit Clinic and these expenses are reimbursed by the SAY Detroit Foundation (Foundation). Total reimbursable operating expenses incurred by the Organization and billed to the Foundation for the years ended September 30, 2015 and 2014, were \$474,349 and \$473,226, respectively. Related receivable from SAY Detroit for the years ended September 30, 2015 and 2014, were \$561,792 and \$92,009, respectively.

**Detroit Rescue Mission Ministries
and Lakeview Farms Mission
Notes to the Combined Financial Statements
September 30, 2015 and 2014**

Note 9 - Concentration

The Organization receives approximately half of its revenue from governmental entities, including federal, state, and local units. The majority of its services are provided to individuals located in the City of Detroit. Many of its programs are funded in part upon successful reaffirmation from its accreditation agency, Commission on Accreditation of Rehabilitation Facilities (CARF). In 2012, the Organization received a renewed reaffirmation for three years, which is the longest period of time allowed by CARF. Due to this substantial government funding, the Organization is subject to a risk that the program funds will be reduced or eliminated. A significant reduction in funding from these sources could have a materially adverse financial impact in the near term.

Note 10 - Legal Matters

The Organization is a defendant in two lawsuits. One is being contested by the Organization and the other is in the initial stages. Management believes, after consultation with legal counsel, that there is no basis to these claims and no judgment will be made against the Organization.