

LEXINGTON RESCUE MISSION, INC.
Lexington, Kentucky

FINANCIAL STATEMENTS
December 31, 2011 and 2010

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rfh Ray, Foley, Hensley & Company, PLLC

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INDEPENDENT AUDITORS' REPORT

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

J. Carroll Luby, CPA

We have audited the accompanying statement of financial position of Lexington Rescue Mission, Inc. (a non-profit organization) as of December 31, 2011 and 2010 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were unable to physically observe inventory as of December 31, 2010 stated at \$95,275 in the accompanying statement of financial position.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about the existence and valuation of the Organization's inventory, the financial statements referred to above present fairly, in all material respects, the financial position of Lexington Rescue Mission, Inc. as of December 31, 2011 and 2010 and the changes in its net assets, functional expenses, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued a report dated June 22, 2012, on our consideration of Lexington Rescue Mission, Inc.'s internal control over financial reporting and our tests of its compliance with certain 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
June 22, 2012

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LEXINGTON RESCUE MISSION, INC.
STATEMENT OF FINANCIAL POSITION
as of December 31,

ASSETS	<u>2011</u>	<u>2010</u>
Current assets:		
Cash - unrestricted	\$ 102,251	\$ 69,880
Accounts receivable	14,605	5,714
Inventory	35,485	95,275
Prepaid expenses and other current assets	<u>9,993</u>	<u>9,000</u>
Total current assets	<u>162,334</u>	<u>179,869</u>
Property and equipment, net	<u>267,422</u>	<u>280,166</u>
Total assets	<u>\$ 429,756</u>	<u>\$ 460,035</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 11,562	\$ 21,222
Payroll liabilities	8,870	14,345
Current portion of notes payable	<u>5,362</u>	<u>5,084</u>
Total current liabilities	<u>25,794</u>	<u>40,651</u>
Notes payable, net of current portion	<u>272,115</u>	<u>277,477</u>
Total liabilities	<u>297,909</u>	<u>318,128</u>
Net assets:		
Unrestricted	131,847	141,907
Temporarily restricted	-	-
Permanently restricted	<u>-</u>	<u>-</u>
Total net assets	<u>131,847</u>	<u>141,907</u>
Total liabilities and net assets	<u>\$ 429,756</u>	<u>\$ 460,035</u>

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

LEXINGTON RESCUE MISSION, INC.
STATEMENT OF ACTIVITIES
for the years ended December 31,

UNRESTRICTED NET ASSETS	<u>2011</u>	<u>2010</u>
Revenue and support		
Contributions	\$ 773,649	\$ 723,512
Foundation grants and awards	4,070	15,341
Fall banquet	48,869	41,560
Thrift stores sales	193,038	203,069
Thrift stores donations	193,038	203,069
Other	<u>19,739</u>	<u>11,344</u>
 Total unrestricted revenue and support	 1,232,403	 1,197,895
Net assets released from restrictions	<u>65,441</u>	<u>64,915</u>
 Total revenue, support and net assets released from restrictions	 <u>1,297,844</u>	 <u>1,262,810</u>
Expenses		
Management and general	149,568	213,126
Fundraising	287,444	240,233
Thrift stores	548,825	420,202
Program services	<u>322,067</u>	<u>408,718</u>
Total expenses	<u>1,307,904</u>	<u>1,282,278</u>
 (DECREASE) IN UNRESTRICTED NET ASSETS	 <u>(10,060)</u>	 <u>(19,468)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	18,999	30,200
Grants	10,789	-
Homeless Prevention Program	35,653	30,291
Client assistance	<u>-</u>	<u>4,424</u>
Net assets released from restriction	<u>(65,441)</u>	<u>(64,915)</u>
 (DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	 <u>-</u>	 <u>-</u>
 CHANGE IN TOTAL NET ASSETS	 <u>(10,060)</u>	 <u>(19,468)</u>
Net Assets, Beginning of Year	<u>141,907</u>	<u>161,375</u>
 NET ASSETS, END OF YEAR	 <u>\$ 131,847</u>	 <u>\$ 141,907</u>

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

LEXINGTON RESCUE MISSION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2011

	<u>Management & General</u>	<u>Fundraising</u>	<u>Thrift Stores</u>	<u>Program Services</u>	<u>Total</u>
Salaries, wages, and benefits	\$ 107,350	\$ 47,312	\$ 148,937	\$ 169,517	\$ 473,116
Thrift store - cost of goods sold	-	-	258,000	-	258,000
Professional fundraising services	-	189,418	-	-	189,418
Rent	-	-	81,900	2,250	84,150
Homeless Prevention and Assistance Program	-	-	-	41,484	41,484
Office supplies	1,982	811	10,868	18,439	32,100
Utilities	1,805	379	13,327	13,576	29,087
Other program expenses	-	-	-	27,840	27,840
Fall banquet	-	22,562	-	-	22,562
Interest expense	1,222	864	238	16,647	18,971
Insurance	1,769	5,430	3,562	6,380	17,141
Depreciation	6,636	-	1,704	6,227	14,567
Bank and credit card fees	6,687	2,365	1,552	2,779	13,383
Computer services and software licenses	2,000	6,722	1,538	3,047	13,307
Postage	10,929	-	64	9	11,002
Repairs and maintenance	3,128	-	4,755	2,418	10,301
Telephone	835	211	3,143	5,038	9,227
Advertising	-	-	8,950	-	8,950
Printing	51	5,525	619	134	6,329
Professional services	417	1,279	839	1,503	4,038
Small equipment	1,075	-	1,672	1,217	3,964
Vehicle	(245)	-	2,159	1,900	3,814
Travel	1,864	602	147	297	2,910
Trash removal	-	-	2,760	-	2,760
Walk for Warmth	-	2,594	-	-	2,594
Dues and subscriptions	186	572	375	672	1,805
Cable and internet	-	-	-	494	494
Security Expense	-	-	240	180	420
Books and tapes	-	-	-	(407)	(407)
Miscellaneous	1,877	798	1,476	426	4,577
Total expenses	<u>\$ 149,568</u>	<u>\$ 287,444</u>	<u>\$ 548,825</u>	<u>\$ 322,067</u>	<u>\$ 1,307,904</u>

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

LEXINGTON RESCUE MISSION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2010

	<u>Management & General</u>	<u>Fundraising</u>	<u>Thrift Stores</u>	<u>Program Services</u>	<u>Total</u>
Salaries, wages, and benefits	\$ 82,688	\$ 22,246	\$ 75,321	\$ 314,801	\$ 495,055
Thrift store - cost of goods sold	-	-	214,091	-	214,091
Professional fundraising services	-	199,241	-	-	199,241
Thrift stores rent	-	-	90,900	-	90,900
Homeless Prevention and Assistance Program	-	-	-	45,252	45,252
Utilities	19,479	-	16,450	-	35,929
Other program expenses	-	-	-	26,334	26,334
Interest expense	21,680	-	-	-	21,680
Office supplies	17,183	-	2,524	-	19,707
Fall banquet	-	18,746	-	-	18,746
Depreciation	6,615	-	1,704	6,227	14,546
Repairs and maintenance	132	-	821	13,249	14,202
Insurance	14,134	-	-	-	14,134
Telephone	6,414	-	4,162	-	10,576
Bank and credit card fees	6,324	-	2,921	-	9,245
Postage	8,285	-	-	-	8,285
Computer services and software licenses	7,572	-	-	-	7,572
Printing	4,480	-	-	391	4,871
Vehicle	4,182	-	242	-	4,424
Dues and subscriptions	4,228	-	-	-	4,228
Books and tapes	-	-	-	2,464	2,464
Advertising	-	-	1,500	-	1,500
Cable and internet	1,465	-	-	-	1,465
Trash removal	-	-	1,388	-	1,388
Small equipment	1,269	-	-	-	1,269
Travel	1,260	-	-	-	1,260
Professional services	743	-	-	-	743
Bad debt expense	50	-	-	-	50
Miscellaneous	4,943	-	8,178	-	13,121
Total expenses	<u>\$ 213,126</u>	<u>\$ 240,233</u>	<u>\$ 420,202</u>	<u>\$ 408,718</u>	<u>\$ 1,282,278</u>

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

LEXINGTON RESCUE MISSION, INC.
STATEMENT OF CASH FLOWS
for the years ended December 31,

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in total net assets	\$ (10,060)	\$ (19,468)
Adjustment to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation	14,567	14,546
(Increase) decrease in operating assets:		
Accounts receivable	(8,891)	(5,140)
Inventory	59,790	-
Prepaid expenses and other current assets	(993)	5,168
Increase (decrease) in operating liabilities:		
Accounts payable	(9,660)	(15,709)
Payroll liabilities	(5,475)	26,593
	39,278	5,990
 CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment	(1,823)	(15,719)
	(1,823)	(15,719)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments of notes payable	(5,084)	(4,821)
	(5,084)	(4,821)
Net increase (decrease) in cash	32,371	(14,550)
Cash, beginning of year	69,880	84,430
 CASH, END OF YEAR	\$ 102,251	\$ 69,880

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

LEXINGTON RESCUE MISSION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Nature of Organization

Lexington Rescue Mission (the Organization) was incorporated on April 2, 2001 for the purpose of 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 to those in need – food, clothing, education, employment, financial assistance, health care, recovery programming, spiritual care, and has a thrift store.

Income Tax Exemption

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.

Under generally accepted accounting principles, the Organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. 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 is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2008.

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.
- 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.

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 the time or purpose restrictions.

LEXINGTON RESCUE MISSION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES, continued

Accounts Receivable

The Organization's accounts receivable at December 31, 2011 and 2010 relates mainly to a credit for small employer health insurance premiums provided by the Department of Treasury Internal Revenue Service. 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, 2011 and 2010, management decided an allowance for doubtful accounts on receivables was not considered necessary. Bad debt expense was \$0 and \$50 for the years ended December 31, 2011 and 2010, respectively.

Thrift Stores Inventory and Donations

Inventory, which consists of donated clothing, household goods, furniture, and various other items, are held for sale at the thrift stores. Since there is no cost to the Organization, inventory and donations revenue are recorded at fair value determined by the price at which the item can be sold on the date of donation. The thrift store inventories at December 31, 2011 and 2010 were \$35,485 and \$95,275, respectively.

Revenue from the sale of donated items are recorded when sold. The Organization did not conduct annual physical inventory counts at the beginning or end of the year ended December 31, 2010, but one was conducted subsequent to year end. Management does not believe that inventory levels fluctuated significantly between the time the physical inventory was actually conducted and both the beginning and end of the year ended December 31, 2010. Therefore, since management determined inventory values were constant from the beginning and end of the year ended December 31, 2011, thrift store donations revenue and cost of sales were determined to be \$193,038, the amount of revenue from the sale of donated items, as recorded in the statement of activities.

A physical inventory count was taken at year end December 31, 2011.

Property and Equipment

Property and equipment are stated at cost. When properties 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 income. 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.

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising expense totalled \$8,950 and \$1,500 for the years ended December 31, 2011 and 2010, respectively.

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.

**LEXINGTON RESCUE MISSION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES, continued

Volunteer 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.

NOTE 2 – PROPERTY AND EQUIPMENT

As of December 31, 2011 and 2010, the property and equipment accounts reflect the following balances:

	<u>2011</u>	<u>2010</u>
Land	\$ 1,500	\$ 1,500
Land improvements	4,332	4,332
Buildings	177,772	177,772
Leasehold Improvements	132,501	132,501
Furniture and equipment	45,044	43,221
Vehicles	<u>9,500</u>	<u>9,500</u>
	370,649	368,826
Less: Accumulated Depreciation	<u>(103,227)</u>	<u>(88,660)</u>
	<u>\$ 267,422</u>	<u>\$ 280,166</u>

Depreciation expense for the years ended December 31, 2011 and 2010 was \$14,567 and \$14,546, respectively.

NOTE 3 - NOTES PAYABLE

Notes payable consists of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Bank of the Bluegrass & Trust Co. mortgage note, interest rate of 6.25%, monthly payments of \$1,883, including principal and interest, with final payment of \$270,204 due upon maturity on May 13, 2013, personally guaranteed by James Connell and Rebecca Connell, and collateralized by first mortgage, assignment of rents and leases, letters of guarantee, and assignment of life insurance policy.	\$ 277,477	\$ 282,561
Less: current portion	<u>(5,362)</u>	<u>(5,084)</u>
Long-term notes payable	<u>\$ 272,115</u>	<u>\$ 277,477</u>

At December 31, 2011, future maturities on notes payable are as follows:

2012	\$ 5,362
2013	<u>272,115</u>
Total	<u>\$ 277,477</u>

LEXINGTON RESCUE MISSION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 4 – OPERATING LEASES

Lexington Rescue Mission leases two buildings in Lexington, Kentucky as of December 31, 2011. The lease for the thrift store at 720 Bryan Avenue is an annual renewal lease which is cancellable at any given time by both parties with ninety days written notice. Monthly rental payments are \$2,575.

In November 2011, the Organization entered into a lease agreement for its Women's Care Center at 1647 Strader Drive. The lease requires monthly rental payments of \$900 until November 28, 2012. Thereafter it shall become a month-to-month tenancy.

During 2011, the lease for the thrift store at 487 East New Circle Road was terminated effective October 31, 2011 without a termination penalty, at which time the Organization closed this thrift store location.

NOTE 5 – SUBSEQUENT EVENTS

The Organization has evaluated and considered the need to recognize or disclose subsequent events through June 22, 2012, 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, 2011, have not been evaluated by the Organization.

**LEXINGTON RESCUE MISSION, INC.
INDEPENDENT AUDITORS' REPORT ON CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of Lexington Rescue Mission, Inc. (a nonprofit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated June 22, 2012. 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.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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 that are required to be reported under ***Government Auditing Standards***.

This report is intended solely for the information and use of the Board of Directors, management and appropriate grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley and Company
Ray, Foley, Hensley and Company, PLLC
June 22, 2012