Financial Statements
June 30, 2018 and 2017

Phoenix Rescue Mission™

Independent Auditor's Report

The Board of Directors
Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission
Phoenix, Arizona

Report on the Financial Statements
We have audited the accompanying financial statements of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission (the Mission), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our 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 Mission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Mission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mission as of June 30, 2018 and 2017, 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.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2018, on our consideration of Phoenix Gospel Mission, Inc. dba Phoenix 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 solely 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 Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's internal control over financial reporting and compliance.

Eide Bailly LLP

Phoenix, Arizona
October 26, 2018

	2018	2017
Current Assets		
Cash and cash equivalents	$ 2,259,153	$ 6,961,082
Grants receivable	20,324	-
Current portion of promises to give	13,200	31,100
Inventories	187,262	34,333
Prepaid expenses and other current assets	284,789	119,121
Total current assets	2,764,728	7,145,636
Promises to Give, Less Current Portion	40,926	46,726
Endowment		
Investments	1,488,384	869,067
Promises to give	75,000	-
Estate receivable	237,918	-
Investments	4,526,580	-
Assets Held Under Split-Interest Agreements	224,553	219,273
Property and Equipment, Net	14,625,006	13,960,906
Property Held for Sale	690,656	-
Other	129,370	101,907
Total assets	$ 24,803,121	$ 22,343,515
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 388,733	$ 159,121
Accrued expenses and other liabilities	374,980	313,383
Current portion of liabilities under split-interest agreements	11,953	13,198
Current portion of notes payable	195,763	196,870
Total current liabilities	971,429	682,572
Liabilities Under Split-Interest Agreements, Less Current Maturities	97,990	102,956
Notes Payable, Less Current Portion	3,727,994	3,900,097
Deferred Compensation Payable	108,183	80,720
Total liabilities	4,905,596	4,766,345
Net Assets		
Board designated operating reserves - unrestricted	3,255,467	3,616,022
Board designated endowment fund - unrestricted	1,651,301	869,067
Undesignated	14,712,545	12,825,186
Total unrestricted net assets	19,619,313	17,310,275
Temporarily restricted	128,212	266,895
Permanently restricted	150,000	-
Total net assets	19,897,525	17,577,170
Total liabilities and net assets	$ 24,803,121	$ 22,343,515

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue								
Contributions	$ 10,281,926	$ 251,765	$ 150,000	$ 10,683,691	$ 9,782,618	$ 146,147	$ -	$ 9,928,765
Grants and contracts	442,124	207,751	-	649,875	324,955	155,306	-	480,261
Donated food and supplies	6,600,577	-	-	6,600,577	4,903,281	-	-	4,903,281
Program service fees	351,264	-	-	351,264	320,892	-	-	320,892
Social enterprise revenue	173,954	-	-	173,954	83,930	-	-	83,930
Other income	174,124	1	-	174,125	124,914	-	-	124,914
Total support and revenue before net assets released from restriction	18,023,969	459,517	150,000	18,633,486	15,540,590	301,453	-	15,842,043
Net assets released from restrictions	598,200	(598,200)	-	-	125,626	(125,626)	-	-
Total support and revenue	18,622,169	(138,683)	150,000	18,633,486	15,666,216	175,827	-	15,842,043
Functional Expenses								
Program services	12,177,495	-	-	12,177,495	10,002,611	-	-	10,002,611
Supporting services								
Fundraising	3,307,100	-	-	3,307,100	3,158,454	-	-	3,158,454
Management and general	828,536	-	-	828,536	807,873	-	-	807,873
Total supporting services	4,135,636	-	-	4,135,636	3,966,327	-	-	3,966,327
Total functional expenses	16,313,131	-	-	16,313,131	13,968,938	-	-	13,968,938
Change in Net Assets	2,309,038	(138,683)	150,000	2,320,355	1,697,278	175,827	-	1,873,105
Net Assets, Beginning of Year	17,310,275	266,895	-	17,577,170	15,612,997	91,068	-	15,704,065
Net Assets, End of Year	$ 19,619,313	$ 128,212	$ 150,000	$ 19,897,525	$ 17,310,275	$ 266,895	$ -	$ 17,577,170

Phoenix Gospel Mission, Inc. dba
Phoenix Rescue Mission
Statements of Functional Expenses
Years Ended June 30, 2018 and 2017

	2018				2017			
	Program Services	Fundraising	Management and General	Total	Program Services	Fundraising	Management and General	Total
Staff Salaries	$ 2,806,906	$ 825,442	$ 404,210	$ 4,036,558	$ 2,452,873	$ 845,276	$ 410,158	$ 3,708,307
Payroll Taxes and Employee Benefits	632,039	172,654	86,177	890,870	583,107	184,203	79,733	847,043
Total payroll costs	3,438,945	998,096	490,387	4,927,428	3,035,980	1,029,479	489,891	4,555,350
Professional Fees	-	211,482	157,133	368,615	5,862	217,018	216,674	439,554
Office Expenses	109,141	152,301	70,076	331,518	112,675	125,105	48,698	286,478
Informational Technology	140,212	68,276	34,240	242,728	97,301	55,838	14,018	167,157
Occupancy	589,492	11,209	8,555	609,256	550,572	4,566	9,219	564,357
Vehicle and Travel	54,872	11,276	7,289	73,437	78,932	21,820	5,349	106,101
Insurance	94,936	957	17,704	113,597	77,150	730	21,714	99,594
Promotion and Fundraising	-	1,829,652	-	1,829,652	-	1,678,585	-	1,678,585
Direct Program Supplies and Other	642,824	11	-	642,835	838,417	-	-	838,417
Interest	130,381	5,743	-	136,124	225,885	4,353	-	230,238
Miscellaneous	4,460	10,721	24,527	39,708	59	8,396	36	8,491
MP marketing	86,696	-	-	86,696	-	-	-	-
Cost of Goods Sold	89,680	-	-	89,680	-	-	-	-
Total expenses before donated supplies and depreciation and amortization	5,381,639	3,299,724	809,911	9,491,274	5,022,833	3,145,890	805,599	8,974,322
Donated Food and Supplies	6,053,916	170	13,176	6,067,262	4,274,342	-	-	4,274,342
Depreciation and Amortization	741,940	7,206	5,449	754,595	705,436	12,564	2,274	720,274
Total expenses	$ 12,177,495	$ 3,307,100	$ 828,536	$ 16,313,131	$ 10,002,611	$ 3,158,454	$ 807,873	$ 13,968,938

	2018	2017
Operating Activities		
Change in net assets	$ 2,320,355	$ 1,873,105
Adjustments to reconcile change in net assets to net cash for operating activities		
Loss/(gain) on disposal of assets	12,601	(7,936)
Depreciation and amortization	754,595	720,274
Donated property and equipment	402,468	269,306
Endowment net investment return	(61,939)	(68,234)
Contribution restricted to endowment	(150,000)	-
Change in value of split-interest agreements	(5,280)	(21,031)
Contributions received under split-interest agreements	-	(55,264)
Changes in operating assets and liabilities		
Estate receivable	(237,918)	85,000
Grants receivable	(20,324)	-
Promises to give	23,700	81,107
Inventory	(152,929)	(26,638)
Prepaid expenses and other current assets	(165,668)	(21,410)
Other long-term assets	(27,463)	(24,360)
Accounts payable	229,612	(26,695)
Accrued expenses and other liabilities	61,597	65,932
Other long-term liabilities	27,463	24,360
Net Cash from Operating Activities	3,010,870	2,867,516
Investing Activities		
Purchases of property and equipment	(2,524,820)	(708,317)
Proceeds from sale of property and equipment	400	13,111
Purchases of operating investments	(4,526,580)	-
Net additions to assets held under split-interest agreements	-	(142,978)
Net additions to from endowment fund	(557,378)	(215,271)
Net Cash used for Investing Activities	(7,608,378)	(1,053,455)
Financing Activities		
Proceeds on notes payable	3,500,000	-
Payments on notes payable	(3,673,210)	(118,882)
Collections of contributions restricted to endowment	75,000	-
Proceeds from establishment of split-interest agreements	-	83,236
Payments to beneficiaries of split interest agreements	(6,211)	(5,084)
Net Cash used for Financing Activities	(104,421)	(40,730)
Net Change in Cash and Cash Equivalents	(4,701,929)	1,773,331
Cash and Cash Equivalents, Beginning of Year	6,961,082	5,187,751
Cash and Cash Equivalents, End of Year	$ 2,259,153	$ 6,961,082

	2018	2017
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 141,158	$ 230,238
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Donated property and equipment	$ 402,468	$ 269,306
Asset transfer		
Property and equipment	$ 83,410	
Accounts payable	(6,000)	
Net assets contributed	$ 77,410	

Note 1 - Nature of Operations and Significant Accounting Policies

Mission and Nature of Operations

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission (the Mission) is an Arizona non-profit corporation incorporated in May 1954. The Mission's purpose is to provide physical care, mental support, and spiritual guidance to men, women, and children who are destitute, homeless, or at risk of becoming homeless. Services include family and community outreach, vocational development, addiction recovery program and programs for other life controlling issues.

Family and community outreach helps families and individuals with basic needs. Special yearly events for Easter, back-to-school, Thanksgiving, and Christmas provide working poor families with new clothing and holiday meals. Outreach to the homeless in the local area consists of delivering food, water, Bibles, and encouragement.

The Changing Lives Center for Women and Children provides physical care, counseling, and spiritual guidance to women and their children who are homeless and struggle with physical addiction, abuse, and despair.

The Men's and Women's Addiction Recovery Program is a structured, 12 to 18-month Christ-centered process that helps them change their lives by dealing with their addictions using Christian principles. The program includes counseling, educational evaluation and advancement, Bible studies, as well as job search at the completion of the program. Upon graduation, they have the tools to hold a job in order to re-enter society as a contributing member in the local community and church.

In July 2016, the Mission started a Rescue Assess Place Unit (RAP). RAP is a maximum 7-day Christ-centered residential program for men, women, and mothers with children facing homelessness and seeking recovery from addiction or other life-controlling problems. RAP meets basic needs, builds relationships, provides opportunity for Christian growth, and assesses clients in order to place them in the appropriate solution pathway.

The Mission started a vocational development program, an eight-month course designed to get participants back on their feet. Vocational programs include Mission Cookies and Mission Catering. In October of 2017, the Mission expanded its Vocational program to include Mission Possible Café.

In September 2017, the Mission acquired Hope for Hunger, Inc., a non-profit food bank.

Concentrations of Credit Risk

The Mission maintains its cash accounts in various deposit accounts, the balances of which are periodically in excess of federally-insured limits.

Cash and Cash Equivalents

The Mission considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, permanent endowment, or other long-term purposes are excluded from this definition.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The Mission determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. Management has made the assertion that no allowance is needed as of June 30, 2018 and 2017.

Inventories

Inventories are stated at the lower of cost, determined on a first in, first out basis, or net realizable value.

Donated inventories are stated at the estimated fair value per pound as determined by Feeding America and the Nation’s Food Bank Network, a national association of food banks which provides assistance and valuation of food and grocery products. Inventory consists of donated food and goods that have not been distributed to one of the Mission’s programs. In 2018, donated food is valued at $1.57 per pound, donated water and beverages are valued at $0.52 per pound, donated household goods are valued at $2.56 per pound, health and beauty valued at $11.24 per pound, and donated clothing is valued at $8.13 per pound. In 2017, donated food is valued at $1.52 per pound, donated water and beverages are valued at $0.58 per pound, donated household goods are valued at $2.67 per pound, health and beauty valued at $33.01 per pound, and donated clothing is valued at $11.49 per pound.

Property and Equipment

Property and equipment additions over $5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. For the years ended June 30, 2018 and 2017, there were no indicators of asset impairment.

Property Held for Sale

Property held for sale is valued at the lower of cost or market.

Assets Held and Liabilities under Split-Interest Agreements

Charitable Gift Annuities

Under charitable gift annuity contracts, the Mission receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as an unrestricted contribution. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

Investments

The Mission records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at fair value in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the board of directors for operating reserve and board-designated endowment.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the board of directors.

The Mission reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Mission's actions. The restrictions stipulate that resources be maintained permanently but permit expending the income generated in accordance with the provisions of the agreements.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the Mission's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received (Note 10).

Advertising Costs

Advertising costs are expensed as incurred, and approximated \$122,645 and \$53,487 during the years ended June 30, 2018 and 2017, respectively.

Income Taxes

The Mission is organized as an Arizona non-profit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170, and has been determined not to be a private foundation under Section 509(a)(1). The Mission is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Mission is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Mission has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Mission believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Mission would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional expense basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 is that revenue should be recognized in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process in order to achieve this core principle which may require the use of judgment and estimates. The entity may adopt ASU 2014-09 either by using a full retrospective approach for all periods presented or a modified retrospective approach. Additionally, in April 2016, FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. The amendments in this standard clarify the process of identifying performance obligations and the licensing implementation guidance. These standards are effective for annual reporting periods beginning after June 30, 2018, and interim reporting periods within annual reporting periods beginning after June 30, 2019. Earlier application is permitted only as of annual reporting periods beginning after June 30, 2016. The Mission has not yet selected a transition method and is currently evaluating the impact of these standards on its financial statements.

In February 2016, the FASB issued ASU 2016-02 to improve financial reporting about leasing transactions (Topic 842). The ASU affects all lease transactions. The Mission as a lessee is required to recognize a right-of-use asset and a lease liability, initially measured at present value of the lease payments, on the statement of financial position. For leases greater than twelve months, the Mission as a lessee must also recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of activities. Repayments of the principal portion of the lease liability must be classified within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. Leases for less than twelve months recognize a single lease cost on a straight-line basis. The amendments in this update are effective for years beginning after December 15, 2019. The Mission is currently evaluating the impact of these amendments on it financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*, to improve presentation of financial statements for not-for-profit entities. The ASU affects all not-for-profit entities. The main provisions of this Update that will impact the Mission include:

- Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. The not-for-profits will report amounts for net assets with donor restrictions and net assets without donor restrictions. They will also be required to present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes.
- All not-for-profits will now be required to disclose an analysis of expenses by both functional and natural classifications.
- All not-for-profits will have to add disclosures regarding how they manage liquidity and information that communicates the availability of financial assets to meet cash needs for general expenditures.

This new standard will be effective for years beginning after June 30, 2018. The standard requires retrospective application.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Note 2 - Fair Value Measurements and Disclosures

The Mission reports certain assets and liabilities at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Mission can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Mission develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset or liability.

Investments in equity securities are classified within Level 1 because they are securities with readily determinable fair values. Certificates of deposit are invested and traded in the financial markets. The certificates of deposit and fixed income investments are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

The following table presents assets and liabilities measured at fair value on a recurring basis at June 30, 2018:

		Fair Value Measurements at Report Date Using		
Assets	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Operating Investments				
Money market (at cost)	$ 2,580	$ -	$ -	$ -
Certificates of deposit	4,524,000	-	4,524,000	-
	$ 4,526,580	$ -	$ 4,524,000	$ -
Assets Held under Split-Interest Agreements				
Money market (at cost)	$ 8,547	$ -	$ -	$ -
Domestic equities	216,006	216,006	-	-
	$ 224,553	$ 216,006	$ -	$ -
Endowment Investments				
Money market (at cost)	$ 332,053	$ -	$ -	$ -
Domestic equities	687,064	687,064	-	-
Fixed income	144,498	-	144,498	-
Equities	315,340	315,340	-	-
Other investments	9,429	9,429	-	-
	$ 1,488,384	$ 1,011,833	$ 144,498	$ -

The following table presents assets and liabilities measured at fair value on recurring basis at June 30, 2017:

		Fair Value Measurements at Report Date Using		
Assets	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Held under Split-Interest Agreements				
Domestic equities	219,273	219,273	-	-
	$ 219,273	$ 219,273	$ -	$ -
Endowment Investments				
Money market (at cost)	$ 18,690	$ -	$ -	$ -
Domestic equities	846,087	846,087	-	-
Other investments	4,290	4,290	-	-
	$ 869,067	$ 850,377	$ -	$ -

Note 3 - Net Investment Return

Net investment return consists of the following at June 30, 2018 and 2017:

	2018	2017
Operating Investments		
Interest and dividends	$ 26,580	$ -
Net realized and unrealized gain	(4,352)	-
Less investment management and custodial fees	-	-
	$ 22,228	$ -
Endowment Investments		
Interest and dividends	$ 53,837	$ 30,643
Net realized and unrealized gain	18,477	44,604
Less investment management and custodial fees	(10,375)	(7,013)
	$ 61,939	$ 68,234

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2018 and 2017:

	2018	2017
Within one year	$ 88,200	$ 31,100
In one to five years	19,500	36,900
Over five years	29,323	19,574
	137,023	87,574
Less discount to net present value at 5.5%	(7,897)	(9,748)
Promises to give, net	$ 129,126	$ 77,826

Amounts are presented on the accompanying statements of financial position as follows:

	2018	2017
Current portion of promises to give	$ 13,200	$ 31,100
Promises to give, less current portion	40,926	46,726
Endowment promises to give	75,000	-
	$ 129,126	$ 77,826

Note 5 - Property and Equipment

Property and equipment consisted of the following at June 30, 2018 and 2017:

	2018	2017
Cost and donated value		
Land	$ 1,333,744	$ 1,383,741
Buildings and improvements	16,581,405	15,663,052
Furniture and equipment	1,088,434	1,169,337
Vehicles	336,034	272,053
Construction in process	117,314	78,632
Total cost and donated value	19,456,931	18,566,815
Less accumulated depreciation	(4,831,925)	(4,605,909)
Property and equipment, net	$ 14,625,006	$ 13,960,906

Note 6 - Notes Payable

Notes payable consisted of the following at June 30, 2018 and 2017:

	2018	2017
Mortgage payable, collateralized by real property, payable in monthly installments of $3,731, including interest of 3.94% with a final balloon payment of $529,384 due upon maturity in January 2021. Loan and regulatory agreements restrict the use of the property in a manner consistent with the Mission's current programs.	$ 585,488	$ 606,418
Mortgage payable, collateralized by real property, payable in monthly installments of $25,293, changing July 1, 2018 to $26,452, including interest at a variable rate (4.35% as of June 30, 2018). Loan and regulatory agreements restrict the use of the property in a manner consistent with the Mission's current programs. Subsequent to year end, the rate was changed to a fixed rate of 4.10%	3,338,269	-
Mortgage payable, collateralized by real property, payable in monthly installments of $25,003, including interest of 5.6% with a final balloon payment of $3,491,000 due upon maturity in July 2017. Loan and regulatory agreements restrict the use of the property in a manner consistent with the Mission's current programs. The note was refinanced on July 10, 2017, see above mortgage payable.	-	3,490,549
	3,923,757	4,096,967
Less current maturities	(195,763)	(196,870)
Total notes payable	$ 3,727,994	$ 3,900,097

Future maturities of notes payable, after consideration of refinancing of mortgage payable noted above, are as follows:

Years Ending June 30,	
2019	$ 195,763
2020	203,734
2021	730,747
2022	198,186
2023	207,105
Thereafter	2,388,222
Total annual debt maturities	$ 3,923,757

The Mission was in compliance with all debt covenants, which primarily consists of a debt coverage ratio.

Interest expense totaled $136,123 and $230,238 for the years ended June 30, 2018 and 2017, respectively. In addition, approximately $27,000 of interest expense was capitalized for the year ended June 30, 2018. There was no interest capitalized for the year ended June 30, 2017.

Note 7 - Leases

The Mission leases office equipment under various short and long-term leases. The leases expire at various dates through 2022.

Future minimum lease payments are as follows:

Years Ending December 31,	Operating Leases
2019	$ 24,969
2020	9,466
2021	3,625
2022	3,625
Total minimum lease payments	$ 41,685

As further described in Note 15, the Mission assumed the lease agreement with the City of Glendale, Arizona for a building to be used as the food distribution center. The lease is set to expire in January 2022. The lease is for $1 per year. The Organization records in-kind lease expense for the fair market value each year. The fair value of the lease expense was $25,000 for June 30, 2018. Total lease expense for the years ended June 30, 2018 and 2017 totaled $70,960 and $45,877, respectively.

Note 8 - Endowments

The Mission's endowment (the Endowment) consists of a fund established by a donor to provide funding for specific activities of the Mission. The Endowment also includes certain unrestricted net assets designed for endowment by the board of directors – the PRM endowment fund formerly known as the REACH endowment fund. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors of the Mission has interpreted the Arizona Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2018 and 2017, there were no such donor stipulations. As a result of this interpretation, permanently restricted net assets are classified at (a) the original value of gifts donated to the Endowment, and (b) the original value of subsequent gifts donated to the Endowment (including promises to give net of discount and allowance for doubtful accounts, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Mission considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return form income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

The purpose of the PRM endowment fund is to provide sustained funding to the Mission's community outreach programs. These programs exist to serve the needs of homeless individuals, at-risk families, and at-risk elderly shut-ins through a variety of outreach services and activities. These services include the Hope Coach street outreach program to the homeless, distribution of food boxes, and other assistance to at-risk families and elderly shut-ins, and specific outreach activities benefiting pre-school and school-age children and youth who are at-risk.

As of June 30, 2018 and 2017, the Mission had the following endowment net asset composition by type of fund:

Year Ended June 30, 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment	$ 1,651,301	$ -	$ -	$ 1,651,301
Donor-restricted endowment	-	1	150,000	150,001
Total Endowments	$ 1,651,301	$ 1	$ 150,000	$ 1,801,302
Year Ended June 30, 2017				
Board-designated endowment	$ 869,067	$ -	$ -	$ 869,067
Donor-restricted endowment	-	-	-	-
Total Endowments	$ 869,067	$ -	$ -	$ 869,067

Investment and Spending Policy

The Mission has adopted investment and spending policies for the Board-designated endowment that attempts to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should provide a relatively predictable and stable payout stream that increases over time at least as much as the general rate of inflation, and to achieve growth of the corpus that increases over time at least as much as the general rate of inflation. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

No more than one distribution per year will be taken from the Board-designated endowment. Distributions will be computed as a percentage of the total value of assets, based upon the aggregate value of all assets of the Board-designated endowment as of the last day of June. Contributions made to the Board-designated endowment during the last six months of the fiscal year, shall be excluded from the aggregate value including appreciation or depreciation of such assets.

The Mission uses an endowment spending-rate formula to determine the maximum amount to spend from the endowment each year. The rate, determined and adjusted from time to time by the Board of Directors, is applied to the aggregate value of all assets of the endowment as of the last day of June. Contributions made to the endowment during the last six months of the fiscal year, shall be excluded from the aggregate value including appreciation or depreciation of such assets. It is the intent of the Mission that no distributions will be made until the Board-designated endowment reaches total assets of more than $1,000,000. Additionally, no amounts may be spent from the donor-restricted endowment until it reaches $500,000. In establishing this policy, the Mission considered the long-term expected return on the endowment and set the rate with the objective of maintaining the purchasing power of the endowment over time.

Changes in Board-designated and Donor Endowment Funds net assets for the years ended June 30, 2018 and 2017 are as follows:

Year Ended June 30, 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 869,067	$ -	$ -	$ 869,067
Investment return				
Investment income, net of fees	43,461	1	-	43,462
Net realized and unrealized gain	18,477	-	-	18,477
	61,938	1	-	61,939
Contributions	720,296	-	150,000	870,296
Endowment net assets, end of year	$ 1,651,301	$ 1	$ 150,000	$ 1,801,302
Year Ended June 30, 2017				
Endowment net assets, beginning of year	$ 585,562	$ -	$ -	$ 585,562
Investment return				
Investment income, net of fees	23,630	-	-	23,630
Net realized and unrealized gain	44,604	-	-	44,604
	68,234	-	-	68,234
Contributions	215,271	-	-	215,271
Endowment net assets, end of year	$ 869,067	$ -	$ -	$ 869,067

Note 9 - Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017, consisted of:

	2018	2017
Time restrictions		
Endowment Earnings	$ 1	$ -
Valley of the Sun	-	12,500
Purpose restrictions		
Board of Visitors - Changing Lives Center Health Program	41,647	29,959
2018 Movement Mortgage Water	28,985	-
Little Angle Foundation	17,500	-
Delta Delta 2018-2019	12,193	-
Changing Lives Center Playground Shade Structure	9,651	-
Sunrise Foundation	7,960	-
2017 Movement Mortgage Water	5,098	30,727
Blue Cross Blue Shield FY18	4,273	-
Dan Burton - Turkeys	750	-
Alumni Funds	154	540
2016 Movement Mortgage Water	-	32
Women for Change Grant	-	10,306
MPC Food Service Vocational Training Project	-	84,574
Thunderbird Charities	-	98,257
Total restricted net assets	$ 128,212	$ 266,895

Net assets were released from restrictions as follows during the years ended June 30, 2018 and 2017:

	2018	2017
Expiration of time restrictions		
Valley of the Sun	$ 12,500	$ 48,625
Ravenscroft	-	30,000
Satisfaction of purpose restrictions		
Volunteer Lab Software	-	3,500
Piper Trust for Good Governance	-	15,000
Thunderbird Charities for Changing Lives Center RAP	98,257	1,743
MPC Food Service Vocational Training	159,574	-
Board of Visitors - Changing Lives Center Health Program	38,313	-
2017 Movement Mortgage Water	25,658	-
Women for Change	10,306	-
Alumni Funds	386	(540)
2016 Movement Mortgage Water	32	21,480
In N Out Burger	2,500	-
Blue Cross Blue Shield FY18	727	4,818
Dan Burton- Turkeys	2,999	-
Sunrise Foundation	2,807	-
Changing Lives Center Playground Shade Structure	12,349	-
City of Glendale CDBG	23,466	-
City of Peoria	1,941	-
City of Glendale ESG Street Outreach	6,385	-
Mission Support Center Buildout	200,000	-
Changing Lives Center Boutique	-	1,000
Total Releases Donor Restricted	$ 598,200	$ 125,626

Permanently restricted net assets consist of endowment funds restricted by donors for investment in perpetuity. Distributions from earnings on endowment funds are available for the purposes specified by donors, or in certain cases, for the Mission’s unrestricted use once the endowment reaches $500,000. The permanently restricted net assets balances consisted of $150,000 and $0 at June 30, 2018 and 2017, respectively.

Note 10 - Donated Food, Supplies, and Services

Donated food, supplies, and services are at their estimated fair value if they enhance the Mission’s non-financial assets or require specialized skills that the Mission would normally purchase if not provided by donation.

No amounts have been reflected in the accompanying financial statements for certain donated volunteer services because they did not qualify under GAAP; however, in 2018 and 2017 over 2,100 and 2,000 volunteers have donated over 23,100 and 18,000 hours, respectively, in processing donated food as well in the Mission’s other program services and administrative support.

The Mission capitalized $402,468 and $269,306 of donated property, plant and equipment for the years then ended June 30, 2018 and 2017, respectively. Donated food, supplies, and services were recognized as follows for the years ended June 30, 2018 and 2017:

June 30, 2018	Program Services	Management and General	Fundraising	2018 Total
Food	$ 3,981,278	$ -	$ -	$ 3,981,278
Water	987,587	-	-	987,587
Clothing	486,728	-	-	486,728
Household goods	157,668	-	-	157,668
Health and beauty	282,035	-	-	282,035
Other Goods	38,109	-	-	38,109
Other Services	120,511	13,176	170	133,857
Total	$ 6,053,916	$ 13,176	$ 170	$ 6,067,262

June 30, 2017	Program Services	Management and General	Fundraising	2017 Total
Food	$ 1,849,023	$ -	$ -	$ 1,849,023
Water	703,859	-	-	703,859
Clothing	959,345	-	-	959,345
Household goods	232,313	-	-	232,313
Health and beauty	79,231	-	-	79,231
Other Goods	-	-	-	-
Other Services	450,571	-	-	450,571
Total	$ 4,274,342	$ -	$ -	$ 4,274,342

Note 11 - Employee Benefit Plans

The Mission has a 401(k) plan that covers substantially all employees. The plan provides that all full-time employees who have completed three months of service and non-full-time employees who have completed one year of service may voluntarily contribute any amount up to the maximum allowable amount under the IRS. The Mission matches 100% of the employee's contribution limited to 4% of their total compensation. During the years ended June 30, 2018 and 2017, the Mission matched employee voluntary contributions, resulting in contributions to the plan of $81,190 and $67,039, respectively.

Note 12 - Deferred Compensation Plans

The Mission offers an unqualified deferred compensation plan (the Plan) for certain management under Section 457(b), eligible deferred compensation. Under this arrangement, participants can defer the payment of federal and state income taxes on their contributions to the Plan. In accordance with the Plan, eligible participants' deferrals are matched by the Mission at 100% of the deferral up to 6% of the participant's W-2 compensation. As of June 30, 2018 and 2017, the Mission's liability for this deferred compensation plan was $108,183 and $80,720 respectively, which is included in other liabilities. Contributions by the Mission for the years ended June 30, 2018 and 2017 totaled $9,000 in both years.

Note 13 - Contingencies

The Mission is subject to certain claims that arise in the ordinary course of business. In the opinion of management, no pending or threatened claims, actions, or proceedings against the Mission are expected to have a material adverse effect on the Mission's operations or financial condition.

Note 14 - Related Party Transactions

During the year ended June 30, 2018, the Mission made improvements to the Mission Support Center totaling $485,135 from a construction company in which a member of the Mission's Board of Directors is an owner.

Note 15 - Asset Transfer

On August 10, 2017, the Mission signed an asset purchase agreement with Hope for Hunger Corporation, an Arizona non-profit corporation. Hope for Hunger Corporation contributed substantially all its assets and operations to the Mission effective September 15, 2017 with no consideration. Because of this transaction, the Mission is provided with food assistance to those in need that meet certain low to moderate income requirements. The expansion will help serve residents in Glendale and certain parts of Peoria and Phoenix. The operations are supported through donations, grants, and donor contributions.

The following table summarizes the fair values of the assets transferred and liabilities assumed on the contribution date:

Property, plant, and equipment	$ 83,410
Accounts payable	(6,000)
Net assets contributed	$ 77,410

Note 16 - Subsequent Events

The Mission has evaluated subsequent events through October 26, 2018, the date which the financial statements were available to be issued. The following significant events occurred subsequent to the year ended June 30, 2018:

- On August 31, 2018, the Mission entered into a sales contract for the building held for sale, which is contingent on financing and is expected to close in November 2018.
- Subsequent to June 30, 2018, the Mission entered into a capital lease for printers for approximately $65,000, with an interest rate of 4.1%.
- The Mission has received loan commitments and awards in the amount of $5,000,000 for an expansion of the Community Solutions Center from a budgeted $11,000,000 project. The Mission has not received any payments for the loan commitments and awards. The Mission is still in the approval and planning phase. The Mission will be starting a capital campaign in the next year.