

Phoenix Gospel Mission, Inc. Dba Phoenix
Rescue Mission

Financial Statements and Supplementary Information

June 30, 2022 and 2021

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2022 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 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.

Baker Tilly US, LLP

Tempe, Arizona
December 12, 2022

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 1,496,658	\$ 706,410
Accounts receivable	853	40,171
Grants receivable	420,652	289,182
Promises to give, current portion, net allowance of \$1,015 and \$15,000, respectively	34,925	657,057
Inventory	259,439	77,222
Prepaid expenses and other assets	372,193	333,521
	<u>2,584,720</u>	<u>2,103,563</u>
PROMISES TO GIVE, net of current portion and discount	29,027	58,052
INVESTMENTS	6,389,670	12,934,774
ENDOWMENTS		
Cash held for endowment	-	100,000
Investments	9,557,687	3,469,005
Estate receivable	1,738,586	43,144
	<u>11,296,273</u>	<u>3,612,149</u>
ASSETS HELD UNDER SPLIT INTEREST AGREEMENTS	219,243	296,168
DEFERRED COMPENSATION PLAN INVESTMENTS	122,232	68,647
PROPERTY AND EQUIPMENT, net	25,581,361	23,975,092
OTHER ASSETS	<u>18,000</u>	<u>18,000</u>
TOTAL ASSETS	<u>\$ 46,240,526</u>	<u>\$ 43,066,445</u>

See accompanying notes.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 STATEMENTS OF FINANCIAL POSITION (Continued)
 June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 896,772	\$ 1,404,968
Accrued expenses and other liabilities	498,116	580,417
Deferred revenue	65,231	11,334
Current portion of annuities payable due under split-interest agreements	13,558	13,557
Current portion of capital leases payable	14,024	14,654
Current portion - Paycheck Protection Program loan	-	41,382
Current portion of notes payable	-	200,764
	<u>1,487,701</u>	<u>2,267,076</u>
ANNUITIES PAYABLE DUE UNDER SPLIT-INTEREST AGREEMENTS, net current portion		
	86,508	94,396
CAPITAL LEASE PAYABLE, net current portion		
	3,232	17,872
PAYCHECK PROTECTION PROGRAM LOAN, net current portion		
	-	965,392
NOTES PAYABLE, net current portion		
	-	2,581,728
DEFERRED CONDITIONAL CONTRIBUTIONS		
	5,000,000	2,000,000
DEFERRED COMPENSATION PAYABLE		
	122,232	68,647
	<u>6,699,673</u>	<u>7,995,111</u>
TOTAL LIABILITIES		
NET ASSETS		
Without donor restrictions:		
Board designated operating reserves	2,655,666	3,444,527
Board designated endowment fund	10,860,212	3,027,232
Undesignated	25,205,211	27,835,689
	<u>38,721,089</u>	<u>34,307,448</u>
With donor restrictions		
	819,764	763,886
	<u>39,540,853</u>	<u>35,071,334</u>
TOTAL NET ASSETS		
	<u>\$ 46,240,526</u>	<u>\$ 43,066,445</u>
TOTAL LIABILITIES AND NET ASSETS		

See accompanying notes.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 STATEMENTS OF ACTIVITIES
 Years Ended June 30, 2022 and 2021

	2022			2021*		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, SUPPORT AND OTHER INCOME						
Contributions	\$ 19,098,691	\$ 352,585	\$ 19,451,276	\$ 15,491,940	\$ 2,557,617	\$ 18,049,557
Grants	1,386,475	-	1,386,475	265,859	10,000	275,859
In-kind donations	8,160,302	-	8,160,302	10,494,040	-	10,494,040
Forgiveness of PPP loan	965,392	-	965,392	-	-	-
Program contracts	1,575,160	-	1,575,160	1,033,448	-	1,033,448
Program service fees	798,673	-	798,673	470,116	-	470,116
Social enterprise revenue	5,889	-	5,889	97,580	-	97,580
Other income	4,016	-	4,016	55,868	-	55,868
Release from time and purpose restrictions	147,851	(147,851)	-	7,639,152	(7,639,152)	-
	<u>32,142,449</u>	<u>204,734</u>	<u>32,347,183</u>	<u>35,548,003</u>	<u>(5,071,535)</u>	<u>30,476,468</u>
OPERATING EXPENSES						
Program services	18,787,939	-	18,787,939	18,488,751	-	18,488,751
Management and general	1,667,550	-	1,667,550	1,345,037	-	1,345,037
Fundraising	4,533,691	-	4,533,691	3,711,461	-	3,711,461
	<u>24,989,180</u>	<u>-</u>	<u>24,989,180</u>	<u>23,545,249</u>	<u>-</u>	<u>23,545,249</u>
CHANGE IN NET ASSETS BEFORE NON-OPERATING INCOME (EXPENSES)	7,153,269	204,734	7,358,003	12,002,754	(5,071,535)	6,931,219
NON-OPERATING ACTIVITIES						
Investment return	(2,739,628)	(148,856)	(2,888,484)	568,777	65,825	634,602
Gain on disposal of property and equipment	-	-	-	7,309	-	7,309
Gain on extinguishment of long-term debt	-	-	-	197,854	-	197,854
TOTAL NON-OPERATING INCOME (EXPENSES)	<u>(2,739,628)</u>	<u>(148,856)</u>	<u>(2,888,484)</u>	<u>773,940</u>	<u>65,825</u>	<u>839,765</u>
CHANGE IN NET ASSETS	4,413,641	55,878	4,469,519	12,776,694	(5,005,710)	7,770,984
NET ASSETS, BEGINNING OF YEAR	<u>34,307,448</u>	<u>763,886</u>	<u>35,071,334</u>	<u>21,530,754</u>	<u>5,769,596</u>	<u>27,300,350</u>
NET ASSETS, END OF YEAR	<u>\$ 38,721,089</u>	<u>\$ 819,764</u>	<u>\$ 39,540,853</u>	<u>\$ 34,307,448</u>	<u>\$ 763,886</u>	<u>\$ 35,071,334</u>

* Reclassified to conform to current year presentation

See accompanying notes.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022

	Program Services					Supporting Services			Total Expenses
	Hope for Hunger	Changing Lives Center	Transforming Lives Center	Community Engagement	Program Support and Other Programs	Total Program Services	Management and General	Fundraising Activities	
Salaries and wages	\$ 166,082	\$ 1,539,139	\$ 1,173,192	\$ 912,048	\$ 1,006,736	\$ 4,797,197	\$ 944,023	\$ 1,112,754	\$ 6,853,974
Payroll taxes and benefits	14,757	107,462	88,065	80,794	88,286	379,364	67,616	93,346	540,326
Employee benefits	36,262	220,279	199,465	199,726	173,938	829,670	226,387	237,368	1,293,425
Total personnel services	217,101	1,866,880	1,460,722	1,192,568	1,268,960	6,006,231	1,238,026	1,443,468	8,687,725
Fundraising and public relations	510	270	192	399	44,493	45,864	574	2,658,314	2,704,752
Direct program supplies and other	51,495	630,517	666,982	677,522	41,960	2,068,476	10,934	20	2,079,430
Building expenses	45,911	366,034	224,687	72,094	125,835	834,561	49,688	6,125	890,374
Dues and subscriptions	-	12,147	1,683	5,508	4,656	23,994	25,623	185,562	235,179
Office and supplies expense	1,140	9,410	6,971	3,000	4,949	25,470	23,431	8,878	57,779
Information technology expense	5,148	65,954	66,887	55,771	46,164	239,924	102,095	147,185	489,204
Insurance expense	15,547	110,471	22,552	14,091	5,552	168,213	32,243	2,828	203,284
Professional fees	162	978	356	1,186	91,622	94,304	117,328	48,212	259,844
Travel expense	2,232	9,719	40,370	112,578	6,653	171,552	18,552	17,025	207,129
Depreciation	6,108	504,982	521,029	86,571	10,302	1,128,992	49,056	16,074	1,194,122
Cost of goods sold	-	-	-	-	1,290	1,290	-	-	1,290
	345,354	3,577,362	3,012,431	2,221,288	1,652,436	10,808,871	1,667,550	4,533,691	17,010,112
Donated food and supplies	7,979,068	-	-	-	-	7,979,068	-	-	7,979,068
TOTAL EXPENSES	\$ 8,324,422	\$ 3,577,362	\$ 3,012,431	\$ 2,221,288	\$ 1,652,436	\$ 18,787,939	\$ 1,667,550	\$ 4,533,691	\$ 24,989,180

See accompanying notes.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 STATEMENT OF FUNCTIONAL EXPENSES
 Year Ended June 30, 2021 *

	Program Services					Total Program Services	Supporting Services		Total Expenses
	Hope for Hunger	Changing Lives Center	Transforming Lives Center	Community Engagement	Program Support and Other Programs		Management and General	Fundraising Activities	
Salaries and wages	\$ 101,897	\$ 1,285,584	\$ 997,595	\$ 912,048	\$ 508,795	\$ 3,805,919	\$ 808,360	\$ 906,638	\$ 5,520,917
Payroll taxes and benefits	7,666	77,822	75,985	80,794	41,421	283,688	79,116	77,949	440,753
Employee benefits	16,355	186,849	155,194	199,726	93,263	651,387	94,165	155,285	900,837
Total personnel services	125,918	1,550,255	1,228,774	1,192,568	643,479	4,740,994	981,641	1,139,872	6,862,507
Fundraising and public relations	798	-	93	399	22,835	24,125	3,062	2,173,432	2,200,619
Direct program supplies and other	15,846	358,458	454,034	494,581	-	1,322,919	3,837	3,308	1,330,064
Building expenses	28,383	264,979	216,240	72,094	66,413	648,109	1,910	7,382	657,401
Dues and subscriptions	1,062	133,190	845	5,508	644	141,249	46,436	184,890	372,575
Office and supplies expense	14,234	12,915	4,117	3,000	11,130	45,396	(1,021)	13,083	57,458
Information technology expense	-	37,133	39,344	55,771	39,987	172,235	78,533	105,138	355,906
Insurance expense	23	79,115	15,939	14,091	19,400	128,568	29,818	2,019	160,405
Professional fees	834	2,972	464	1,186	7,629	13,085	181,476	42,843	237,404
Travel expense	6,108	10,884	19,538	44,523	-	81,053	1,405	4,893	87,351
Depreciation	-	495,021	185,103	86,571	18,821	785,516	17,940	34,601	838,057
Cost of goods sold	-	-	-	-	37,711	37,711	-	-	37,711
	193,206	2,944,922	2,164,491	1,970,292	868,049	8,140,960	1,345,037	3,711,461	13,197,458
Donated food and supplies	10,347,791	-	-	-	-	10,347,791	-	-	10,347,791
TOTAL EXPENSES	\$ 10,540,997	\$ 2,944,922	\$ 2,164,491	\$ 1,970,292	\$ 868,049	\$ 18,488,751	\$ 1,345,037	\$ 3,711,461	\$ 23,545,249

* Reclassified to conform to current year presentation.

See accompanying notes.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 STATEMENTS OF CASH FLOWS
 Years Ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,469,519	\$ 7,770,984
Adjustments to reconcile change in net assets to net cash from operating activities		
Provision for bad debts	4,340	-
Depreciation	1,194,122	838,057
Gain on disposal of property and equipment	-	(7,309)
Gain on extinguishment of long-term debt	-	(197,854)
Donated property and equipment	-	(105,855)
Realized/unrealized (gain) loss on investments	3,151,511	(330,873)
Change in discount on promises to give	18,177	(16,507)
Paycheck Protection Program loan forgiveness	(965,392)	-
Change in value of split-interest agreements	5,673	6,236
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(131,470)	(188,380)
Grants receivable	39,318	(3,388)
Promises to give, net	628,640	462,491
Inventories	(182,217)	(36,408)
Prepaid expenses and other current assets	(38,672)	(9,821)
Estate receivable	(1,695,442)	(1,472)
Increase (decrease) in:		
Accounts payable	(907,526)	(1,753,892)
Accrued expenses and other liabilities	(82,301)	139,573
Deferred revenue	53,897	(3,017)
Deferred conditional contributions	3,000,000	-
Deferred compensation payable	35,597	27,709
Annuities payable due under split-interest agreements	(13,560)	(13,560)
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,584,214	6,576,714
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,401,061)	(6,952,516)
Proceeds from the disposal of property and equipment	-	15,086
Purchases of investments	(33,145,892)	(17,985,659)
Proceeds from sales of investments	30,492,131	8,085,897
NET CASH USED IN INVESTING ACTIVITIES	(5,054,822)	(16,837,192)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(2,782,492)	(535,816)
Payments on Paycheck Protection Program loan	(41,382)	-
Payments on capital lease payable	(15,270)	(14,068)
NET CASH USED IN FINANCING ACTIVITIES	(2,839,144)	(549,884)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	690,248	(10,810,362)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	806,410	11,616,772
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,496,658	\$ 806,410

See accompanying notes.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 STATEMENTS OF CASH FLOWS (Continued)
 Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 18,035</u>	<u>\$ 138,102</u>
Employee contributions made to deferred compensation plan	<u>\$ 35,897</u>	<u>\$ 28,168</u>
Change in value of deferred compensation	<u>\$ (17,909)</u>	<u>\$ 5,940</u>
Purchases of property and equipment included in accounts payable	<u>\$ 399,330</u>	<u>\$ 958,969</u>
Forgiveness of Paycheck Protection Program loan	<u>\$ (965,392)</u>	<u>\$ -</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS FOR STATEMENTS OF CASH FLOWS TO STATEMENTS OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 1,496,658	\$ 706,410
Cash held for endowment	<u>-</u>	<u>100,000</u>
Total cash and cash equivalents	<u>\$ 1,496,658</u>	<u>\$ 806,410</u>

See accompanying notes.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission (the Mission) is an Arizona non-profit corporation started in 1952 and incorporated in May 1954. The Mission provides Christ-centered, life-transforming solutions to persons facing hunger, homelessness, addiction, and trauma in the Valley of the Sun. The Mission also provides 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 programs and programs for other life controlling issues.

The Mission offers long-term recovery programs for men, women, and mothers with children which focus on the healing of the total person with two residential centers offering a blend of discipleship, counseling, relapse prevention, group therapy, and vocational and educational services to up to 530 clients at a time.

The Mission provides several programs to further its mission, including but not limited to the following:

Hope for Hunger – Hope for hunger is a food bank ministry of the Mission’s sharing program. The Mission sharing program distributes food and household goods to help meet the needs of low-income individuals and families and engages them for rescue. Food, clothing, water, hygiene items, and household goods are distributed to individuals and families, as well as to other agencies serving people in need. Infused with the love of Christ, the food bank is a true beacon of hope to the community, a place where caring volunteers come together to provide emergency food for struggling children, families and seniors in Glendale and parts of Peoria and Phoenix areas. Hope for hunger food bank provides emergency food along with case management and job assistance for over 250 families each day and volunteers serve as the hands and feet of Jesus creating healthier, stronger futures and lives transformed.

Changing Lives Center for Women and Children – The Changing Lives Center (CLC) is the Mission’s total person recovery program for homeless, or near homeless women and women with children. It offers a blend of discipleship, recovery services, group therapy, and vocational and educational services. They house up to 170 women and children, whether battling addiction, escaping domestic violence, or suffering trauma. They live in a secure, apartment-style housing with access to childcare as they receive counseling, life skills education, and career assistance. The demand for services to women and children is growing rapidly.

Transforming Lives Center for Men - The Transforming Lives Center (TLC) serves homeless men and men in poverty. Currently, it houses up to 360 men with life-controlling problems throughout various stages of recovery. Clients participate in discipleship including class work, recovery meetings, work therapy, mentoring, group and individual counseling, and vocational development. The program focuses on healing the total person.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Community Engagement – Nearly every day of the year, the Mission’s hope coach vehicles travel the streets of the valley, offering water, hygiene kits, socks, and other items to homeless men, women, and families without shelter. The hope coach is often the only help they receive. This vital program is important for reaching those on the streets with prayer and hope. Teams of case managers, interns, and volunteers canvass the valley searching out men and women experiencing homelessness, hand out life-saving hope totes of water, hygiene items, and socks, and provide individualized care to remove the barriers that are keeping people stuck in a life on the streets.

Basis of Presentation

The financial statements of the Mission have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and accordingly reflect all significant receivables, payables and other liabilities.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Mission considers all highly liquid debt instruments with an original maturity of ninety days or less at date of acquisition to be cash equivalents. Cash held in accounts with stock brokerage firms are reported as investments as they represent accounts used for the purchases and sales of investments and are excluded from this definition. Cash and highly liquid financial instruments restricted to endowments that are perpetual in nature, or other long-term purposes are also excluded from this definition.

Accounts Receivable

Accounts receivable consist primarily of amounts due from various agencies for contract revenue and are unsecured. Accounts receivable is carried at the outstanding balances less an allowance for doubtful accounts, if applicable. The Mission evaluates the collectability of its accounts receivable based on a combination of factors. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, it records a specific reserve to reduce the amounts recorded to what it believes will be collected. Accounts are charged off against the allowance when they are deemed to be uncollectible. Accounts receivable at June 30, 2022 and 2021 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
 POLICIES (Continued)

Promises to Give and Grants Receivable

Unconditional promises to give and certain grants receivable are recognized as revenues in the period the promise or grant is received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Unconditional promises to give that are 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 recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is included in contributions. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, the Mission records a specific reserve to reduce the amounts recorded to what it believes will be collected. Additionally, the Mission reserves a portion of all promises based upon historical uncollectible rates. Promises are charged off against the allowance when they are deemed to be uncollectible. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Grants receivable at June 30, 2022 and 2021 are considered to be fully collectible by management and, accordingly, an allowance for doubtful accounts is not deemed necessary.

Inventory

Inventory consists of donated food and goods and are stated at the estimated fair value per pound as determined by a study performed by Feeding America during the 2021 and 2020 calendar year ends. Donated items per pound are valued at the following as of June 30:

	2022	2021
Food	\$ 1.53	\$ 1.71
Water and beverages	\$ 0.70	\$ 1.44
Household goods	\$ 2.63	\$ 1.91
Health and beauty	\$ 9.41	\$ 14.42
Clothing	\$ 15.00	\$ 4.18

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Fair Value Measurements

A framework for measuring fair value has been established by the Accounting Standards Codification and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Mission has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified term (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect the Mission's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Investments

Investments are recorded at fair value or net asset value in the statements of financial position. Investment return or loss is included in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external investment expenses.

Risk and Uncertainty

The Mission invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes, could materially affect the amount reported in the statements of financial position.

Split Interest Agreements

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 contributions without donor restrictions. 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 in assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

Property and Equipment

Acquisitions of property and equipment in excess of \$10,000 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of buildings and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Impairment of Long-Lived Assets

The Mission reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Endowment Funds

The Mission's endowment fund consists of one donor established fund to provide funding for specific activities of the Mission. The endowment fund also includes certain net assets without donor restrictions designated by the Board to function as an endowment. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Mission follows Arizona's Management of Charitable Funds Act (MCFA) and its own governing documents. MCFA requires the preservation of endowment funds. When a donor's intent is not expressed, MCFA directs the Mission to spend an amount that is prudent, consistent with the purposes of the fund, relevant economic factors and the donor's intent that the fund continue in perpetuity.

The Mission classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The donor-restricted endowment fund also includes accumulated earnings in the fund that are also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Mission in a manner consistent with the standard of prudence prescribed by MCFA.

In accordance with MCFA, the Mission considers the following factors in making a determination to appropriate or accumulate board designated and donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the board designated and donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) the Mission's other resources, and (7) the Mission's investment policies.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Endowment Funds (Continued)

The Board had designated certain net assets without donor restrictions as general endowment funds to support the mission of the Mission. Since these amounts resulted from an internal designation and are not donor-restricted, they are classified and reported as board designated net assets without donor restrictions. The Mission's policy is to maintain the board designated net assets without restrictions balance at the investment account balance until the Board approves spending from the funds.

Investment Return Objectives, Risk Parameters and Strategies. The Mission has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution while growing the funds if possible.

Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. For any donor restricted endowment funds, the Mission's policy is to appropriate a certain amount for distribution each year once the fund reaches \$1,000,000. No more than one distribution will be made from the endowment per year. Distributions, if any, will be based on a percentage of the aggregate portfolio value of the endowment account on the last day of June. Once the endowment fund reaches the minimum required for distribution, the Board of Directors and Executive Committee may jointly authorize a distribution up to an additional 3% of the endowment's aggregate value at June 30, however, the total distribution cannot exceed the portfolio's total investment return for the year. In establishing this policy, the Mission considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, and the possible effects of inflation. In addition, the Mission's endowment policy requires that if the total fund market value falls below the amount of original contributions, any spending from the fund may be reduced or suspended.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Net Assets

The Mission reports information regarding its financial position and activities according to two classes of net assets as follows:

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and a board-designated endowment.
- Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Gifts of long-lived assets and gifts of cash restricted for acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

Revenue Recognition

The majority of the Mission's earned revenue arrangements generally consist of a single performance obligation to transfer promised services.

Program service fees and contract revenue where performance obligations are satisfied at a point in time consist primarily of shelter services, food distribution, case management, workforce development, and childcare services. The Mission recognizes revenue at a point in time, in the period the services are provided. Amounts are billed in the month the service is provided and each performance obligation is completed. Amounts billed for these services are considered past due at 30 days after invoices are submitted.

Social enterprise revenue is recognized in the period in which the Mission satisfies performance obligations by transferring goods to customers. Social enterprise revenue is recognized at a point in time, in the period the goods are transferred. Payment is collected when the transfer of goods occurs.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Contributions

Contributions and grants are received and recorded as income and net assets without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor-imposed restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. It is the Mission's policy to classify donor restricted contributions as support without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

The Mission has several cost reimbursement contracts with federal and state agencies. The Mission has determined that these contracts are conditional contributions and therefore revenue is recognized when the condition is met, which is as allowable costs are incurred.

In-Kind Donations and Change in Accounting Principle

In September 2020, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU was issued to increase the transparency of contributed nonfinancial (non-cash) assets for not-for-profit entities through enhancements to presentation and disclosure. The change in accounting principle was adopted on a retrospective basis as of July 1, 2020. There was no adjustment to the beginning net assets balance as a result of the adoption of this standard.

Donated services are recorded at their estimated fair value if they enhance the Mission's nonfinancial assets or require specialized skills that the Mission would normally purchase if not provided by donation. No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under the generally accepted accounting principles guidelines. Donated materials and other non-cash assets are recorded at fair value in the period received. Donated use of facilities is recorded at the estimated fair value.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Functional Allocation of Expenses

The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program services and supporting services benefited. Personnel costs are allocated based on actual employee activities based on time and effort, and indirect expenses are allocated based on the percentage of personnel costs in a particular program or area compared to total personnel costs for the Mission. Occupancy, insurance, office expenses and depreciation expenses are allocated based on square footage utilized by the function and information technology expenses are allocated based on computers used in each cost cent by function.

Income Tax Status

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (“the Code”), and accordingly, there is no provision for corporate income taxes in the accompanying financial statements. In addition, the Mission qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

The Mission recognizes uncertain tax positions in the financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of June 30, 2022 and 2021, the Mission had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Mission recognizes interest and penalties associated with income tax in operating expenses. During the years ended June 30, 2022 and 2021, the Mission did not have any income tax related interest and penalty expense.

Advertising

Advertising costs are expenses as incurred. Advertising expense for the years ended June 30, 2022 and 2021 was approximately \$416,000 and \$362,000, respectively.

Management’s 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
 POLICIES (Continued)

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Date of Management's Review

In preparing these financial statements, the Mission has evaluated events and transactions for potential recognition or disclosure through December 12, 2022, the date the financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

The Mission strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds and other short-term investments.

The following table reflects the Mission's financial assets as of June 30, 2022 and 2021 reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are comprised of the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,496,658	\$ 806,410
Accounts receivable	853	40,171
Grants receivable	420,652	289,182
Current portion of promises to give	34,925	657,057
Investments (non endowed)	<u>6,389,670</u>	<u>12,934,774</u>
	8,342,758	14,727,594
Board-designated reserves	(2,655,666)	(3,444,527)
Cash held for endowment	<u>-</u>	<u>(100,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,687,092</u>	<u>\$ 11,183,067</u>

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 3 CONCENTRATIONS OF CREDIT RISK AND CONCENTRATIONS OF INCOME SOURCES

Financial instruments that subject the Mission to potential concentrations of credit risk consist principally of cash and cash equivalents, promises to give and grants receivable. The Mission maintains its cash in bank accounts with financial institutions, which at times may exceed federally insured limits. The Mission has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

Gross promises to give include amounts from one donor which make up approximately 83% of total promises to give at June 30, 2022. Gross grants receivable includes amounts from four grantor sources that make up approximately 66% of total grants receivable as of June 30, 2022. Concentrations of credit risk with respect to receivables are limited due to the collection history and relationships with these donors and payer sources. Contributions include amounts from one donor that make up approximately 23% of total revenue, support and other income at June 30, 2022.

Gross promises to give include amounts from one donor which make up approximately 66% of total promises to give at June 30, 2021. Gross grants receivable includes amounts from two grantor sources that make up approximately 38% of total grants receivable as of June 30, 2021. Concentrations of credit risk with respect to receivables are limited due to the collection history and relationships with these donors and payer sources. Contributions include amounts from one donor that make up approximately 22% of total revenue, support and other income at June 30, 2021.

NOTE 4 PROMISES TO GIVE

Unconditional promises consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Within one year	\$ 35,940	\$ 672,057
In one to five years	63,711	74,559
	99,651	746,616
Less allowance for uncollectible promises to give	(1,015)	(15,000)
Less discount to net present value at 6.4% and 4.1%	<u>(34,684)</u>	<u>(16,507)</u>
Promises to give, net	<u>\$ 63,952</u>	<u>\$ 715,109</u>

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 4 PROMISES TO GIVE (Continued)

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

	<u>2022</u>	<u>2021</u>
Current portion of promises to give	\$ 34,925	\$ 657,057
Promises to give, less current portion	<u>29,027</u>	<u>58,052</u>
	<u>\$ 63,952</u>	<u>\$ 715,109</u>

NOTE 5 SPLIT-INTEREST AGREEMENTS

The Mission is the beneficiary of five charitable gift annuities, which are held by the Mission. Under these agreements, the Mission is to receive the remainder of the trust assets upon the death of the donors. The Mission has recorded a beneficial interest in these trust funds at the net present value of the estimated future amount to be received and has recorded liabilities in an amount equal to the present value of the estimated future obligations to beneficiaries. Management uses discount rates equivalent to the 10-year Treasury rate effective at the date of the original gift over the donor's estimated life expectancy. The Mission maintains the original donated amounts in an investment account.

NOTE 6 INVESTMENTS

Investments consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Operating investments	\$ 6,389,670	\$ 12,934,774
Endowment investments	9,557,687	3,469,005
Assets held under split interest agreements	219,243	296,168
Deferred compensation plan	<u>122,232</u>	<u>68,647</u>
	<u>\$ 16,288,832</u>	<u>\$ 16,768,594</u>

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 6 INVESTMENTS (Continued)

Investment return (loss) is summarized as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 374,112	\$ 358,860
Unrealized investment loss	(2,077,197)	(76,422)
Realized investment gain (loss)	(1,074,314)	407,295
Investment fees	<u>(111,085)</u>	<u>(55,131)</u>
	<u>\$ (2,888,484)</u>	<u>\$ 634,602</u>

NOTE 7 FAIR VALUE MEASUREMENT

Investments with readily determinable fair values are measured at fair value in the statement of financial position as determined by quoted market prices in active markets (Level 1). 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 measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market	\$ 1,550,945	\$ -	\$ -	\$ 1,550,945
Equities	2,459,658	-	-	2,459,658
Fixed income	-	12,155,997	-	12,155,997
Mutual funds	<u>122,232</u>	<u>-</u>	<u>-</u>	<u>122,232</u>
	<u>\$ 4,132,835</u>	<u>\$ 12,155,997</u>	<u>\$ -</u>	<u>\$ 16,288,832</u>

The following table presents assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market	\$ 1,173,906	\$ -	\$ -	\$ 1,173,906
Equities	2,072,520	-	-	2,072,520
Fixed income	-	12,990,370	-	12,990,370
Mutual funds	<u>531,798</u>	<u>-</u>	<u>-</u>	<u>531,798</u>
	<u>\$ 3,778,224</u>	<u>\$ 12,990,370</u>	<u>\$ -</u>	<u>\$ 16,768,594</u>

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 1,333,744	\$ 1,333,744
Buildings and improvements	29,661,935	27,214,022
Furniture and equipment	1,740,062	1,351,803
Assets held under capital leases	69,531	70,934
Vehicles	<u>762,159</u>	<u>640,513</u>
	33,567,431	30,611,016
Less accumulated depreciation	<u>(8,024,500)</u>	<u>(6,830,378)</u>
	25,542,931	23,780,638
Construction in process	<u>38,430</u>	<u>194,454</u>
	<u><u>\$ 25,581,361</u></u>	<u><u>\$ 23,975,092</u></u>

The Mission has entered into construction contracts for the construction of a building and certain leasehold improvements totaling approximately \$11,059,000 of which approximately \$38,000 and \$194,000 is included in construction in process as of June 30, 2022 and 2021, respectively. The remaining commitment on these contracts is approximately \$209,000 as of June 30, 2022.

Depreciation expense was \$1,194,122 and \$838,057 for the years ended June 30, 2022 and 2021, respectively.

NOTE 9 ENDOWMENT FUNDS

Endowment net asset composition by type of fund as of June 30, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 10,860,212	\$ -	\$ 10,860,212
Donor-restricted endowment funds:			
Original donor-restricted amount	-	500,000	500,000
Underwater portion of endowment	<u>-</u>	<u>(63,939)</u>	<u>(63,939)</u>
	<u><u>\$ 10,860,212</u></u>	<u><u>\$ 436,061</u></u>	<u><u>\$ 11,296,273</u></u>

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 9 ENDOWMENT FUNDS (Continued)

Endowment net asset composition by type of fund as of June 30, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 3,027,232	\$ -	\$ 3,027,232
Donor-restricted endowment funds:			
Original donor-restricted amount	-	500,000	500,000
Accumulated investment earnings	-	84,917	84,917
	<u>\$ 3,027,232</u>	<u>\$ 584,917</u>	<u>\$ 3,612,149</u>

Changes in endowment funds for the year ended June 30, 2022 and 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Funds
Balance at June 30, 2020	\$ 2,199,862	\$ 419,091	\$ 2,618,953
Contributions and designations	251,472	100,000	351,472
Interest and dividends	92,372	12,318	104,690
Unrealized investment loss	(7,181)	(25,290)	(32,471)
Realized investment gain	514,158	82,924	597,082
Investment fees	(23,451)	(4,126)	(27,577)
Balance at June 30, 2021	3,027,232	584,917	3,612,149
Contributions and designations	10,505,630	-	10,505,630
Interest and dividends	238,193	17,033	255,226
Unrealized investment loss	(639,195)	(35,829)	(675,024)
Realized investment loss	(2,079,217)	(110,752)	(2,189,969)
Investment fees	(42,431)	(4,349)	(46,780)
Amounts appropriated for expenditure	(150,000)	(14,959)	(164,959)
Balance at June 30, 2022	<u>\$ 10,860,212</u>	<u>\$ 436,061</u>	<u>\$ 11,296,273</u>

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 9 ENDOWMENT FUNDS (Continued)

The fair value of assets associated with individual donor-restricted endowments may have fair values less than the amount required to be maintained by donors or law (underwater endowments). We have interpreted MCFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of June 30, 2022, the endowment fund fair value was less than the original gift value resulting in a deficiency. This deficiency is resulting from unfavorable market fluctuations and a donor approved distribution outside of the endowment spending policy.

The original gift, fair value, and deficiency (underwater) amounts as of June 30, 2022 are as follows:

	<u>Original Gift Value</u>	<u>Fair Value</u>	<u>Deficiency</u>
Dan Burton Endowment fund	<u>\$ 500,000</u>	<u>\$ 436,061</u>	<u>\$ (63,939)</u>

NOTE 10 OBLIGATIONS UNDER CAPITAL LEASE

The Mission leases office equipment under a capital lease obligation expiring in August 2023. The capital lease is recorded at the inception of the lease at the lesser of the fair market value of the leased asset or the present value of the minimum lease payments. The assets held under the capital lease are depreciated using the straight-line method over the life of the lease. The amortization of capitalized leased assets was approximately \$14,000 for each of the years ended June 30, 2022 and 2021, and is included in depreciation expense.

The following is a summary of property and equipment held under the capital lease as of June 30:

	<u>2022</u>	<u>2021</u>
Copiers	\$ 69,531	\$ 70,934
Less accumulated depreciation	<u>(54,383)</u>	<u>(40,196)</u>
	<u>\$ 15,148</u>	<u>\$ 30,738</u>

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 10 OBLIGATIONS UNDER CAPITAL LEASE (Continued)

Minimum future lease payments under the capital lease obligation at June 30, 2022 are as follows:

<u>Years Ending June 30,</u>	
2023	\$ 15,676
2024	<u>2,047</u>
	17,723
Less amount representing interest	<u>(467)</u>
Present value of net minimum lease payments	17,256
Less: current portion	<u>(14,024)</u>
Long term portion	<u><u>\$ 3,232</u></u>

NOTE 11 PAYCHECK PROTECTION PROGRAM LOAN

During the year ended June 30, 2020, the Mission received \$1,006,774 in loan proceeds under the CARES Act Paycheck Protection Program (the Program) administered by the U.S Small Business Administration (SBA), bearing interest at 1.00% per year. During the year ended June 30, 2021, the Mission applied for forgiveness from the SBA for \$965,392 under the terms of the Program. Management did not believe the remaining portion of \$41,382 was eligible for forgiveness, and therefore repaid this outstanding balance during the year ended June 30, 2022. During the year ended June 30, 2022, the Mission received forgiveness of \$965,392 and has recorded a gain on the forgiveness on the accompanying statement of activities.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 12 NOTES PAYABLE

Notes payable consists of the following at June 30:

	<u>2022</u>	<u>2021</u>
Mortgage payable, collateralized by real property, payable in monthly installments of \$26,033, including interest at a fixed rate of 4.1%, with a balloon payment of approximately \$2,136,000 due at maturity in July 2024. Loan and regulatory agreements restrict the use of the property in a manner consistent with the Mission's current programs. The mortgage payable was paid in full during the year ended June 30, 2022.	<u>\$ -</u>	<u>\$ 2,782,492</u>
	-	2,782,492
Less current maturities	<u>-</u>	<u>(200,764)</u>
	<u>\$ -</u>	<u>\$ 2,581,728</u>

Interest expense totaled \$18,035 and \$138,102 for the years ended June 30, 2022 and 2021, respectively.

At June 30, 2020, the Mission had a mortgage payable in the amount of \$541,097. During the year ended June 30, 2021, the lender exercised a put option to sell this promissory note payable at an amount less than the carrying value. As part of the terms of this sale agreement, the Mission paid a lump sum total of approximately \$333,000 and recognized a gain on the forgiveness of the remaining balance in the amount of approximately \$198,000 during the year ended June 30, 2021.

NOTE 13 DEFERRED CONDITIONAL CONTRIBUTIONS

In 2020, the Mission entered into an Affordable Housing Program Agreement for a Rental Project with the Federal Home Loan Bank of San Francisco. The Mission recorded the award as a conditional contribution and will recognize the revenue when there is no longer a right of return of the award or measurable performance or barrier to overcome. The total award amount of \$2,000,000 is to be used for a community solutions center that is expected to have an occupancy of 120 people. The agreement is collateralized by a deed of trust and will become payable if the Mission does not continue to operate the facility to provide housing to the specific population through June 2036.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 13 DEFERRED CONDITIONAL CONTRIBUTIONS (Continued)

In 2017, the Mission entered into a State Housing Trust Fund Financing Award – Phoenix Rescue Mission Recovery Project with the Arizona Department of Housing. The Mission recorded the award as a conditional contribution in 2022 when expenses for the project were incurred per the agreement and will recognize the revenue when there is no longer a right of return of the award or measurable performance or barrier to overcome. The total award amount of \$3,000,000 is to be used for a community solutions center that is expected to have an occupancy of 120 people. The agreement is collateralized by a deed of trust and will become payable if the Mission does not continue to operate the facility to provide housing to the specific population through January 2038.

Deferred conditional contributions consist of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Federal Home Loan Bank	\$ 2,000,000	\$ 2,000,000
State of Arizona Department of Housing	3,000,000	-
	<u>\$ 5,000,000</u>	<u>\$ 2,000,000</u>

NOTE 14 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Endowments:		
Portion of perpetual endowment funds that are required to be permanently retained	\$ 500,000	\$ 500,000
Investment return on perpetual endowments funds subject to a time restriction under MCFA	(63,939)	84,917
	436,061	584,917
Subject to purpose restrictions:		
Changing Lives Center	166,892	38,872
COVID -19	1,584	32,552
Food security	67,149	15,561
Health services	19,679	10,893
Hope for Hunger	51,152	54,606
School support	8,864	10,500
Other	68,383	15,985
	<u>\$ 819,764</u>	<u>\$ 763,886</u>

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 14 NET ASSETS WITH DONOR RESTRICTIONS (Continued)

The following net assets were released from restrictions during the year ended June 30:

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
Capital Campaign	\$ -	\$ 7,540,989
Changing Lives Center	37,725	21,815
COVID -19	30,968	-
Food security	15,509	-
Health services	882	8,778
Hope For Hunger	36,288	4,555
School support	10,500	20,000
Other	15,979	43,015
	<u>\$ 147,851</u>	<u>\$ 7,639,152</u>

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 15 IN-KIND DONATIONS

Donated food, supplies, and services were recognized as follows for the year ended June 30:

Non-financial asset	Revenue Recognized as of June 30, 2022	Revenue Recognized as of June 30, 2021	Utilization in Program/Activities	Donor Restrictions	Valuation Technique and Inputs
Water/Beverages	\$ 510,584	\$ 1,127,687	Hope for Hunger	x	Estimated based on weight of items and use of the annual Feeding America Survey to determine the pound value per the greater Phoenix metropolitan area.
Clothing	1,195,154	135,791	Hope for Hunger	x	Estimated based on weight of items and use of the annual Feeding America Survey to determine the pound value per the greater Phoenix metropolitan area.
Food	5,618,555	8,468,069	Hope for Hunger	x	Estimated based on weight of items and use of the annual Feeding America Survey to determine the pound value per the greater Phoenix metropolitan area.
Building Lease	34,800	34,800	Hope for Hunger	x	Estimated using the fair value monthly rental price from lessor for rental space in the Mission's service area.
Household Goods	289,788	139,779	Hope for Hunger	x	Estimated based on weight of items and use of the annual Feeding America Survey to determine the pound value per the greater Phoenix metropolitan area.
Hygiene products	511,421	456,321	Hope for Hunger	x	Estimated based on weight of items and use of the annual Feeding America Survey to determine the pound value per the greater Phoenix metropolitan area.
Capitalized property and equipment	-	105,855	TLC	x	Estimate based on current cost of the construction items provided by the vendor operating in the greater Phoenix metropolitan area.
Other goods	-	2,525	Community Engagement & CLC	x	Estimated based on weight of items and use of the annual Feeding America Survey to determine the pound value per the greater Phoenix metropolitan area. Also based on current cost of the building repairs provided by the vendor operating in the greater Phoenix metropolitan area
Other services	-	23,213	Community Engagement	x	Estimate based on current rates of services provided by the vendors operating in the greater Phoenix metropolitan area.
	\$ 8,160,302	\$ 10,494,040			

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2022 and 2021

NOTE 16 COMMITMENTS AND CONTINGENCIES

Operating Leases

The Mission has lease agreements for various office equipment and facilities, expiring through August 2027. Approximate minimum future rental payments under these non-cancelable operating leases are as follows:

<u>Years Ending June 30,</u>	
2023	\$ 161,000
2024	159,000
2025	63,000
2026	9,000
2027	9,000
Thereafter	<u>1,000</u>
	<u>\$ 402,000</u>

During the asset purchase of the Hope for Hunger Corporation in August 2017, 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 2027. The lease is for \$1 per year. The Mission records in-kind lease expense for the fair market value each year. The fair value of the lease expense was \$34,800 for the each of the years ended June 30, 2022 and 2021. Total lease expense for the years ended June 30, 2022 and 2021 was approximately \$168,100 and \$97,200, respectively.

Legal Proceedings

The Mission is involved in legal disputes that may arrive from time to time under the normal course of business. In the opinion of management, the resolution of such matters will not have a material adverse impact on the Mission's financial position, results of operations or cash flows.

NOTE 17 RETIREMENT PLANS

Employee Benefit Plan

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, 2022 and 2021, the Mission matched employee voluntary contributions, resulting in contributions to the plan of approximately \$214,000 and \$141,000, respectively.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2022 and 2021

NOTE 17 RETIREMENT PLANS (Continued)

Deferred Compensation Plan

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, 2022 and 2021, the Mission's liability for this deferred compensation plan was approximately \$122,000 and \$69,000, respectively. Contributions by the Mission for the years ended June 30, 2022 and 2021 totaled approximately \$36,000 and \$29,000, respectively.

NOTE 18 RELATED PARTY TRANSACTIONS

During the years ended June 30, 2022 and 2021, the Mission received total contributions from board members, ambassadors and employees of approximately \$323,000 and \$74,000, respectively.

NOTE 19 NEW ACCOUNTING PRONOUNCEMENT

The FASB has issued ASU No. 2016-02, *Leases*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2021. The standard's core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

UNIFORM GUIDANCE SUPPLEMENTARY REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's internal control. Accordingly, we do not express an opinion on the effectiveness of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's internal control.

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

Our consideration of internal control 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission and Affiliate'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly US, LLP

Tempe, Arizona
December 12, 2022

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's major federal programs for the year ended June 30, 2022. Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly US, LLP

Tempe, Arizona
December 12, 2022

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2022

<u>Federal Grantor / Pass-Through Grantor / Program</u>	<u>Federal Assistance Listing Number</u>	<u>Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through Arizona Department of Economic Security			
Supplemental Nutrition Assistance Program Cluster			
Supplemental Nutrition Assistance Program	10.551	CTR040033	\$ 86,873
Passed through St. Mary's Food Bank			
Food Distribution Cluster			
Emergency Food Assistance Program (Food Commodities)	10.569	14-456-965	2,297,233 *
Commodity Supplement Food Program	10.565	14-456-9365	4,367,063 *
Total Food Distribution Cluster			<u>6,664,296</u>
Total U.S. Department of Agriculture			<u>6,751,169</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Arizona Department of Economic Security			
Child Care and Development Fund Cluster			
Child Care and Community Development Block Grant	93.575	ADES15-097832	62,907
Child Care and Community Development Block Grant	93.575	P0028203901	72,000
Total Child Care and Development Fund Cluster			<u>134,907</u>
Total U.S. Department of Health and Human Services			<u>134,907</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through City of Glendale			
Emergency Solutions Grant Program	14.231	C20-1126	393,143
Passed through City of Scottsdale			
Emergency Solutions Grant Program	14.231	2020-140-COS-CA2	11,184
			<u>404,327</u>
CDBG - Entitlement Grants Cluster			
Passed through City of Peoria			
Community Development Block Grants/Entitlement Grants	14.218	ACON0-4222	36,804
Passed through HFH CDBG			
Community Development Block Grants/Entitlement Grants	14.218	C22-022	224,784
Passed through Scottsdale Outreach & Navigation			
Community Development Block Grants/Entitlement Grants	14.218	2021-072-COS	160,571
Total CDBG - Entitlement Grants Cluster			<u>422,159</u>
Total U.S. Department of Housing and Urban Development			<u>826,486</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 7,712,562</u>

* Denotes major program

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2022

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule of Expenditures of Federal Awards presents only a portion of the operations of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission it is not intended to and does not present the financial position, results of operations and cash flows of the Mission.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B) Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission has not elected to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 NON-CASH ASSISTANCE

Non-monetary assistance includes amounts expended under the food distribution cluster on the Schedule and is reported at the fair market value of the commodities received and disbursed.

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2022

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified
 Internal control over financial reporting:
 • Material weakness(es) identified? yes X no
 • Significant deficiency(ies) identified that are not considered to be a material weakness(es)? yes X none reported
 Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:
 • Material weakness(es) identified? yes X no
 • Significant deficiency(ies) identified that are not considered to be a material weakness(es)? yes X none reported

Type of auditors’ report issued on compliance for major program listed below: Unmodified
 Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? yes X no

Identification of major program:

Federal Assistance Listing	Name of Federal Program or Cluster
10.565	United States Department of Agriculture – Commodity Supplemental Food Program
10.569	United States Department of Agriculture - Emergency Food Assistance Program (Food Commodities)

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low risk auditee? yes X no

PHOENIX GOSPEL MISSION, INC. DBA PHOENIX RESCUE MISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
June 30, 2022

SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

None Noted

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None Noted