

**Phoenix Gospel Mission, Inc. dba
Phoenix Rescue Mission**

Financial Statements and
Supplementary Information

June 30, 2025 and 2024

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Table of Contents
June 30, 2025 and 2024

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	4
Statements of Activities	6
Statements of Functional Expenses	7
Statements of Cash Flows	9
Notes to Financial Statements	10
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	28
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	30
Supplementary Information	
Schedule of Expenditures of Federal Awards	33
Notes to Schedule of Expenditures of Federal Awards	34
Schedule of Findings and Questioned Costs	35

Independent Auditors' Report

To the Board of Directors of
Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission (the Mission), which comprise the statements of financial position as of June 30, 2025 and 2024, 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 accompanying financial statements present fairly, in all material respects, the financial position of the Mission as of June 30, 2025 and 2024, 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 the 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 the 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 GAAS and *Government 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 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 GAAS and *Government 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 the 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 the 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.

Supplementary Information

Our audits were 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 January 26, 2026 on our consideration of the 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 the effectiveness of the Mission's 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 the Mission's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Tempe, Arizona
January 26, 2026

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Statements of Financial Position

June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,876,180	\$ 685,431
Accounts receivable, net	-	3,877
Grants receivable	819,193	848,114
Inventory	118,706	180,996
Prepaid expenses and other assets	312,707	212,410
	<u>3,126,786</u>	<u>1,930,828</u>
Total current assets		
	<u>3,126,786</u>	<u>1,930,828</u>
Investments	<u>6,406,758</u>	<u>8,721,894</u>
Endowments		
Investments	16,269,388	15,227,032
Estate receivable	-	4,000
	<u>16,269,388</u>	<u>15,231,032</u>
Deferred Compensation Plan Investments	413,465	302,209
Operating Lease Right-of-Use Assets	427,917	594,174
Finance Lease Right-of-Use Assets	69,551	60,918
Assets Held Under Split-Interest Agreements	258,133	263,914
Property and Equipment, Net	23,313,711	24,074,621
Other Assets	<u>11,138</u>	<u>11,138</u>
Total assets	<u>\$ 50,296,847</u>	<u>\$ 51,190,728</u>

See notes to financial statements

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Statements of Financial Position

June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 687,988	\$ 736,300
Accrued expenses and other liabilities	1,169,780	948,895
Current portion of deferred conditional contributions	1,027,326	1,161,189
Current portion of annuities payable due under split-interest agreements	9,579	10,710
Current portion of operating lease liabilities	168,717	169,074
Current portion of finance leases payable	54,647	47,689
	<u>3,118,037</u>	<u>3,073,857</u>
Total current liabilities	3,118,037	3,073,857
Annuities Payable Due Under Split-Interest Agreements, Net of Current Portion	45,626	51,972
Operating Lease Liabilities, Net of Current Portion	285,123	453,032
Finance Leases Payable, Net of Current Portion	16,403	14,043
Deferred Conditional Contributions, Net of Current Portion	5,000,000	5,000,000
Deferred Compensation Payable	413,465	302,209
	<u>8,878,654</u>	<u>8,895,113</u>
Total liabilities	8,878,654	8,895,113
Net Assets		
Without donor restrictions:		
Board-designated endowment fund	15,607,025	14,554,652
Undesignated	24,916,055	26,897,337
	<u>40,523,080</u>	<u>41,451,989</u>
With donor restrictions	895,113	843,626
	<u>41,418,193</u>	<u>42,295,615</u>
Total net assets	41,418,193	42,295,615
Total liabilities and net assets	<u>\$ 50,296,847</u>	<u>\$ 51,190,728</u>

See notes to financial statements

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Statements of Activities

Years Ended June 30, 2025 and 2024

	2025			2024		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Support and Other Income						
Contributions	\$ 14,217,263	\$ 215,020	\$ 14,432,283	\$ 15,214,531	\$ 208,628	\$ 15,423,159
Grants	1,386,725	-	1,386,725	1,258,855	-	1,258,855
In-kind donations	10,164,765	-	10,164,765	11,118,574	-	11,118,574
Program contracts	5,331,181	-	5,331,181	2,876,662	-	2,876,662
Program service fees	1,004,221	-	1,004,221	827,888	-	827,888
Other income (loss)	47,296	-	47,296	(19,907)	-	(19,907)
Release from time and purpose restrictions	176,516	(176,516)	-	808,101	(808,101)	-
Total revenues, support and other income	<u>32,327,967</u>	<u>38,504</u>	<u>32,366,471</u>	<u>32,084,704</u>	<u>(599,473)</u>	<u>31,485,231</u>
Operating Expenses						
Program services	27,382,925	-	27,382,925	25,762,325	-	25,762,325
Management and general	2,571,599	-	2,571,599	3,019,842	-	3,019,842
Fundraising	4,661,124	-	4,661,124	4,974,227	-	4,974,227
Total operating expenses	<u>34,615,648</u>	<u>-</u>	<u>34,615,648</u>	<u>33,756,394</u>	<u>-</u>	<u>33,756,394</u>
Change in net assets before nonoperating income	<u>(2,287,681)</u>	<u>38,504</u>	<u>(2,249,177)</u>	<u>(1,671,690)</u>	<u>(599,473)</u>	<u>(2,271,163)</u>
Nonoperating Activities						
Investment return	<u>1,358,772</u>	<u>12,983</u>	<u>1,371,755</u>	<u>2,239,483</u>	<u>24,517</u>	<u>2,264,000</u>
Total nonoperating income	<u>1,358,772</u>	<u>12,983</u>	<u>1,371,755</u>	<u>2,239,483</u>	<u>24,517</u>	<u>2,264,000</u>
Change in net assets	<u>(928,909)</u>	<u>51,487</u>	<u>(877,422)</u>	<u>567,793</u>	<u>(574,956)</u>	<u>(7,163)</u>
Net Assets, Beginning	<u>41,451,989</u>	<u>843,626</u>	<u>42,295,615</u>	<u>40,884,196</u>	<u>1,418,582</u>	<u>42,302,778</u>
Net Assets, Ending	<u>\$ 40,523,080</u>	<u>\$ 895,113</u>	<u>\$ 41,418,193</u>	<u>\$ 41,451,989</u>	<u>\$ 843,626</u>	<u>\$ 42,295,615</u>

See notes to financial statements

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Statement of Functional Expenses

Year Ended June 30, 2025

	Program Services					Supporting Services			
	Food Distribution	Changing Lives Center	Transforming Lives Center	Homeless Outreach	Other Programs	Total Program Services	Management and General	Fundraising Activities	Total Expenses
Salaries and wages	\$ 248,591	\$ 1,970,732	\$ 1,933,835	\$ 2,194,414	\$ 2,553,480	\$ 8,901,052	\$ 1,376,419	\$ 1,295,028	\$ 11,572,499
Payroll taxes and benefits	18,738	127,988	127,547	167,673	188,685	630,631	102,694	97,511	830,836
Employee benefits	50,960	293,757	327,922	352,573	428,127	1,453,339	376,351	244,146	2,073,836
Total personnel expenses	318,289	2,392,477	2,389,304	2,714,660	3,170,292	10,985,022	1,855,464	1,636,685	14,477,171
Marketing and public relations	633	133	133	2,848	47,236	50,983	8,178	2,030,833	2,089,994
Direct program supplies and other	206,174	596,121	865,260	810,844	163,512	2,641,911	45,844	467,455	3,155,210
Building expenses	234,027	424,015	379,171	22,237	113,193	1,172,643	51,765	24,743	1,249,151
Dues and subscriptions	260	2,763	3,631	9,283	4,282	20,219	37,480	34,777	92,476
Office and supplies expense	360	4,055	7,950	6,765	2,692	21,822	20,741	18,472	61,035
Information technology expense	24,628	46,088	67,846	102,647	63,846	305,055	56,437	238,990	600,482
Insurance expense	31,317	40,879	95,066	33,470	20,806	221,538	178,489	14,050	414,077
Professional fees	12,102	40	68	6,403	98,856	117,469	230,725	168,489	516,683
Travel expense	32,617	17,507	29,006	108,174	25,115	212,419	37,284	17,783	267,486
Depreciation	23,524	590,912	672,686	95,755	31,913	1,414,790	49,192	8,847	1,472,829
	883,931	4,114,990	4,510,121	3,913,086	3,741,743	17,163,871	2,571,599	4,661,124	24,396,594
Donated food and supplies	10,219,054	-	-	-	-	10,219,054	-	-	10,219,054
Total expenses	\$ 11,102,985	\$ 4,114,990	\$ 4,510,121	\$ 3,913,086	\$ 3,741,743	\$ 27,382,925	\$ 2,571,599	\$ 4,661,124	\$ 34,615,648

See notes to financial statements

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Statement of Functional Expenses

Year Ended June 30, 2024

	Program Services					Supporting Services			
	Food Distribution	Changing Lives Center	Transforming Lives Center	Homeless Outreach	Other Programs	Total Program Services	Management and General	Fundraising Activities	Total Expenses
Salaries and wages	\$ 366,762	\$ 1,907,838	\$ 1,750,820	\$ 1,507,854	\$ 1,228,877	\$ 6,762,151	\$ 1,766,998	\$ 1,217,202	\$ 9,746,351
Payroll taxes and benefits	54,170	137,563	175,139	112,842	100,839	580,553	131,059	93,103	804,715
Employee benefits	83,206	323,424	336,842	259,366	276,812	1,279,650	302,565	267,788	1,850,003
Total personnel expenses	504,138	2,368,825	2,262,801	1,880,062	1,606,528	8,622,354	2,200,622	1,578,093	12,401,069
Marketing and public relations	4,466	-	-	4,701	91,607	100,774	97,279	2,679,061	2,877,114
Direct program supplies and other	318,190	523,233	783,447	849,306	156,605	2,630,781	15,421	319,162	2,965,364
Building expenses	217,949	353,765	364,357	14,550	102,951	1,053,572	42,291	35,597	1,131,460
Dues and subscriptions	-	3,505	765	400	523	5,193	40,721	21,277	67,191
Office and supplies expense	1,054	10,519	9,191	5,832	4,951	31,547	21,808	16,171	69,526
Information technology expense	16,880	80,519	74,456	74,326	127,560	373,741	158,786	128,540	661,067
Insurance expense	29,766	37,306	80,712	17,816	17,232	182,832	135,204	12,380	330,416
Professional fees	15,686	-	534	5,434	55,552	77,206	220,447	156,441	454,094
Travel expense	16,245	23,558	41,010	103,108	4,158	188,079	31,848	17,515	237,442
Depreciation	30,687	554,139	664,273	101,425	32,993	1,383,517	55,415	9,990	1,448,922
	1,155,061	3,955,369	4,281,546	3,056,960	2,200,660	14,649,596	3,019,842	4,974,227	22,643,665
Donated food and supplies	11,112,729	-	-	-	-	11,112,729	-	-	11,112,729
Total expenses	\$ 12,267,790	\$ 3,955,369	\$ 4,281,546	\$ 3,056,960	\$ 2,200,660	\$ 25,762,325	\$ 3,019,842	\$ 4,974,227	\$ 33,756,394

See notes to financial statements

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Statements of Cash Flows

Years Ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (877,422)	\$ (7,163)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,472,829	1,448,922
Amortization of operating right-of-use assets	166,257	165,616
(Gain) loss on disposal of property and equipment	(4,000)	19,931
Realized/unrealized gain on investments	(871,404)	(1,878,718)
Change in discount on promises to give	-	(23,966)
Provision for credit losses	-	1,910
Donation of property and equipment	-	(34,050)
Donation of marketable securities	(168,303)	(247,928)
Change in value of split-interest agreements	3,233	(18,409)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	3,877	(5,787)
Grants receivable	28,921	(111,423)
Promises to give, net	-	40,903
Inventory	62,290	28,208
Prepaid expenses and other current assets	(100,297)	339,165
Estate receivable	4,000	1,451,666
Other assets	-	18,000
Increase (decrease) in:		
Accounts payable	(48,312)	103,082
Accrued expenses and other liabilities	220,885	418,940
Deferred conditional contributions	(133,863)	1,150,125
Deferred compensation payable	52,137	42,804
Operating lease liabilities	(168,266)	(162,353)
Annuities payable due under split-interest agreements	(10,710)	(10,710)
Net cash (used in) provided by operating activities	<u>(368,148)</u>	<u>2,728,765</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(656,567)	(666,177)
Proceeds from sales of property and equipment	4,000	-
Purchases of investments	(4,199,992)	(16,172,147)
Proceeds from sales of investments	6,466,123	13,944,061
Net cash provided by (used in) investing activities	<u>1,613,564</u>	<u>(2,894,263)</u>
Cash Flows From Financing Activities		
Payments on finance lease payable	(54,667)	(56,557)
Net cash used in financing activities	<u>(54,667)</u>	<u>(56,557)</u>
Net change in cash and cash equivalents	1,190,749	(222,055)
Cash and Cash Equivalents, Beginning	<u>685,431</u>	<u>907,486</u>
Cash and Cash Equivalents, Ending	<u>\$ 1,876,180</u>	<u>\$ 685,431</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 21,600</u>	<u>\$ 25,675</u>
Employee contributions made to deferred compensation plan	<u>\$ 52,212</u>	<u>\$ 42,893</u>
Change in value of deferred compensation	<u>\$ 6,907</u>	<u>\$ 1,740</u>

See notes to financial statements

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements

June 30, 2025 and 2024

1. Nature of Operations and Summary of Significant Accounting Policies

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission (the Mission) is an Arizona not-for-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:

Food Distribution

The Mission Sharing program has a variety of services that distribute food, clothing, water, hygiene items and household goods to individuals and families throughout the Phoenix Metro area. The Hope for Hunger food bank and Mobile Pantries distribute food to households facing food insecurity. Community Events are large outreach events designed to provide basic goods to low-income families. Case Managers work with Mission Sharing participants to achieve short and long-term goals by connecting them to other services in the community and enrolling them in the Mission's Vocational Development program. This program serves approximately 1,400 households with food each month.

Changing Lives Center for Women and Children

The Changing Lives Center serves up to 100 adult women and 50 children with crisis residential placement, behavioral health and addiction recovery services and childcare. The programs offered at the center aim to rescue people from crisis situations into a safe, supportive environment and place them on a path to achieving sustainable goals. Clients battling substance abuse, mental health conditions and other life-controlling problems participate in a 12-month program that provides rehabilitation and life skills classes, individual counseling, workforce development and job placement, case management, childcare and Christian discipleship.

Transforming Lives Center for Men

The Transforming Lives Center serves up to 360 adult men with crisis residential placement, behavioral health and addiction recovery services. The programs offered at the center aim to rescue people from crisis situations into a safe, supportive environment and place them on a path to achieving sustainable goals. Clients battling substance abuse, mental health conditions and other life-controlling problems participate in a 12-month program that provides rehabilitation and life skills classes, individual counseling, workforce development and job placement, case management and Christian discipleship.

Homeless Outreach

Homeless Outreach is a mobile outreach program that provides services to people experiencing homelessness across the Valley. Nearly every day of the year, Hope Coach vehicles travel the streets, offering water, hygiene kits, socks and other items to men, women and families living in places not meant for human habitation. Outreach case managers set case plans with participants, connect them to resources and follow up consistently to keep them on track to reach their goals. The program helps about 75 people each month get off the streets and into a safe residential setting.

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements

June 30, 2025 and 2024

Other Programs

Vocational Development is a comprehensive program that provides clients with the opportunity to master basic academic and employment skills and move from financial instability to economic security. The program supports clients with academic advancement, financial literacy, job preparation and job placement. Clients are offered opportunities to use grant funds from the Workforce Innovation and Opportunity Act (WIOA) to take advantage of vocational certification opportunities. The Mission's Vocational Development department maintains relationships with a host of employers in several sectors who have an employment pipeline for qualified Mission graduates.

The Clinical Supervision Program provides oversight of all counseling staff, and interns coming from various colleges and universities. Clinical Supervisors are able to sign off on practicum and internship hours completed by supervisors and are responsible for ensuring that junior clinicians follow a development plan and have access to the training they need to grow in the profession.

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 (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 90 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 amounts 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.

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, 2025 and 2024 are considered to be fully collectible by management, and accordingly, an allowance for doubtful accounts is not deemed necessary.

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements

June 30, 2025 and 2024

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 2025 and 2024 calendar year ends. Donated items per pound are valued at the following as of June 30:

	<u>2025</u>	<u>2024</u>
Food	\$ 1.72	\$ 1.74
Water and beverages	0.85	0.78
Household goods	2.30	2.55
Health and beauty	12.80	16.09
Clothing	8.30	10.90

Fair Value Measurements

A framework for measuring fair value has been established by the Accounting Standards Codification (ASC) 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.

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.

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements

June 30, 2025 and 2024

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 with 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 \$5,000 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.

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 continues in perpetuity.

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements

June 30, 2025 and 2024

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.

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

The Mission's policy is to appropriate a certain amount for distribution each year once the donor-restricted endowment fund reaches \$500,000. Distributions up to 6% of the fund may be distributed each year; however, the distribution is limited to the portfolio's total investment return. Distributions, if any, will be based on a percentage of the aggregate portfolio value of the endowment account on the last day of June. 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
June 30, 2025 and 2024

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 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 released from restriction 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 consist primarily of amounts collected from clients for shelter and food services provided. 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 30 days after invoices are submitted.

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. Conditional contributions and grants with donor restrictions are recorded as increases in net assets without donor restrictions when the conditions and restrictions are met simultaneously. As of June 30, 2025 and 2024, these grants included conditional promises to give in the amount of approximately \$1,043,000 and \$2,896,000, respectively, which represents unspent amounts included in the grant agreements which are expected to be spent over the remaining term of the agreement.

In-Kind Donations

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 GAAP guidelines. Donated materials and other noncash 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

June 30, 2025 and 2024

Functional Allocation of Expenses

The statements of functional expenses present 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 center 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 (IRC), 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 IRC 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, 2025 and 2024, 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, 2025 and 2024, the Mission did not have any income tax related interest and penalty expense.

Leasing Activities

The Mission recognizes the assets and liabilities that arise from leases on the statements of financial position. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating lease right-of-use assets are expensed on a straight-line basis as lease expense over the noncancelable lease term. The Mission does not separate lease and nonlease components for all asset classes when determining the measurement of the right-of-use assets and lease liabilities.

When the rate implicit in the lease is not determinable, rather than use the Mission's incremental borrowing rate, the Mission uses a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all asset classes. In addition, the Mission does not apply the recognition requirements to any leases with an original term of 12 months or less, for which the Mission is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather short-term leases are recorded on a straight-line basis over the lease term.

Right-of-use assets are assessed for impairment in accordance with the Mission's long-lived asset policy. The Mission reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2025 and 2024 was \$637,331 and \$979,845, respectively.

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements

June 30, 2025 and 2024

Measure of Operations

The Mission's measure of operations is its' changes in net assets from operating activities excluding investment return.

Management's Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

Date of Management's Review

In preparing these financial statements, the Mission has evaluated events and transactions for potential recognition or disclosure through January 26, 2025, the date the financial statements were available to be issued.

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 Mission excludes assets with donor purpose restrictions unless those amounts relate to ongoing program activities.

The following table reflects the Mission's financial assets as of June 30, 2025 and 2024 reduced by amounts that are not available to meet general expenditures within one year of the statements of financial position date because of contractual restrictions or internal Board designations.

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

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 1,876,180	\$ 685,431
Accounts receivable, net	-	3,877
Grants receivable	819,193	848,114
Investments (nonendowed)	6,406,758	8,721,894
Amounts appropriated for expenditure from endowment for the next fiscal year	<u>26,495</u>	<u>27,055</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,128,626</u>	<u>\$ 10,286,371</u>

While the Mission's investments are classified as long-term on the statements of financial position based on management's intent, the majority of the investments could be readily liquidated without significant penalty to fund operating cash flow needs, therefore this amount has been included in the calculation above.

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements

June 30, 2025 and 2024

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 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 grants receivable includes amounts from three grantor sources that make up approximately 70% of total grants receivable as of June 30, 2025. Concentrations of credit risk with respect to receivables are limited due to the collection history and relationships with these grantors. Contributions include amounts from one donor that make up approximately 34% of total revenues, support and other income during the year ended June 30, 2025.

Gross grants receivable includes amounts from two grantor sources that make up approximately 74% of total grants receivable as of June 30, 2024. Concentrations of credit risk with respect to receivables are limited due to the collection history and relationships with these grantors. Contributions include amounts from one donor that make up approximately 31% of total revenues, support and other income during the year ended June 30, 2024.

4. Split-Interest Agreements

The Mission is the beneficiary of five charitable gift annuities, which are held by the Mission. The Mission maintains the original donated amounts in an investment account and are carried at fair value. Contribution revenues are recognized at the date the annuities are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The Mission 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 liabilities are adjusted annually for the accretion of the discount, changes in rates and other changes in the estimates of the future benefits.

5. Investments

Investments consist of the following at June 30:

	<u>2025</u>	<u>2024</u>
Operating investments	\$ 6,406,758	\$ 8,721,894
Endowment investments	16,269,388	15,227,032
Assets held under split-interest agreements	258,133	263,914
Deferred compensation plan	413,465	302,209
Total	<u>\$ 23,347,744</u>	<u>\$ 24,515,049</u>

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

	<u>2025</u>	<u>2024</u>
Interest and dividends	\$ 618,038	\$ 492,818
Unrealized investment gain (loss)	(341,312)	1,854,310
Realized investment gain	1,212,716	24,408
Investment fees	(117,687)	(107,536)
Total	<u>\$ 1,371,755</u>	<u>\$ 2,264,000</u>

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements
June 30, 2025 and 2024

6. 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, 2025 and 2024:

	2025			
	Level 1	Level 2	Level 3	Total
Cash and money market	\$ 768,666	\$ -	\$ -	\$ 768,666
Equities	5,189,759	-	-	5,189,759
Fixed income	-	8,841,019	-	8,841,019
Exchange traded funds	2,844,236	-	-	2,844,236
Mutual funds	5,704,064	-	-	5,704,064
Total	\$ 14,506,725	\$ 8,841,019	\$ -	\$ 23,347,744

	2024			
	Level 1	Level 2	Level 3	Total
Cash and money market	\$ 682,659	\$ -	\$ -	\$ 682,659
Equities	4,930,857	-	-	4,930,857
Fixed income	-	11,492,713	-	11,492,713
Exchange traded funds	2,685,660	-	-	2,685,660
Mutual funds	4,723,160	-	-	4,723,160
Total	\$ 13,022,336	\$ 11,492,713	\$ -	\$ 24,515,049

7. Property and Equipment

Property and equipment consist of the following at June 30:

	2025	2024
Land	\$ 1,333,744	\$ 1,333,744
Buildings and improvements	29,145,652	29,088,034
Furniture and equipment	2,130,480	1,994,000
Vehicles	1,286,401	1,154,783
	33,896,277	33,570,561
Less accumulated depreciation	(10,914,447)	(9,528,579)
	22,981,830	24,041,982
Construction in process	331,881	32,639
	\$ 23,313,711	\$ 24,074,621

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements

June 30, 2025 and 2024

Construction in process is related to certain leasehold improvements at the Transforming Lives Center and Hope for Hunger Food Bank, website enhancements, software migration and implementation, and architectural and zoning for a potential new office. These costs will be transferred to the appropriate property and equipment category and depreciation will commence when the assets are placed in service.

Depreciation expense was \$1,472,829 and \$1,448,922 for the years ended June 30, 2025 and 2024, respectively.

8. Endowment Funds

Endowment net asset composition by type of fund as of June 30, 2025 and 2024 is as follows:

	2025		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 15,607,025	\$ -	\$ 15,607,025
Donor-restricted endowment funds:			
Original donor-restricted amount	-	648,666	648,666
Accumulated investment earnings	-	13,697	13,697
Total	\$ 15,607,025	\$ 662,363	\$ 16,269,388

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 14,554,652	\$ -	\$ 14,554,652
Donor-restricted endowment funds:			
Original donor-restricted amount	-	648,666	648,666
Accumulated investment earnings	-	27,714	27,714
Total	\$ 14,554,652	\$ 676,380	\$ 15,231,032

Changes in endowment funds for the years ended June 30, 2025 and 2024 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Funds
Balance, June 30, 2023	\$ 12,486,301	\$ 557,108	\$ 13,043,409
Contributions and designations	291,487	94,756	386,243
Interest and dividends	278,115	4,096	282,211
Unrealized investment gain	1,628,170	81,443	1,709,613
Realized investment loss	(53,545)	(8,582)	(62,127)
Investment fees	(75,876)	(3,610)	(79,486)
Amounts appropriated for expenditure	-	(48,831)	(48,831)
Balance, June 30, 2024	14,554,652	676,380	15,231,032
Interest and dividends	302,998	3,633	306,631
Unrealized investment loss	(23,272)	(54,895)	(78,167)
Realized investment gain	865,524	68,409	933,933
Investment fees	(88,877)	(4,164)	(93,041)
Amounts appropriated for expenditure	(4,000)	(27,000)	(31,000)
Balance, June 30, 2025	\$ 15,607,025	\$ 662,363	\$ 16,269,388

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements

June 30, 2025 and 2024

9. Leasing Activities

The Mission leases office equipment and buildings under operating lease agreements that expire at various dates through January 2028. The agreements require monthly payments that gradually increase over the term of the lease of approximately \$750 to \$11,900.

The Mission also leases vehicles under various finance lease agreements requiring monthly installments ranging from approximately \$1,100 to \$1,600, including interest, through February 2027, with imputed interest rates between 10.34% and 12.53%. The finance leases are 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. Assets held under finance leases are depreciated using the straight-line method over the life of the lease.

Right-of-use assets represent the Mission's right to use an underlying asset for the lease term, while lease liabilities represent the Mission's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain of the Mission's leases include options to renew or terminate the lease. The exercise of lease renewal or early termination options is at the Mission's sole discretion. The Mission regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, the Mission includes such options in the lease term. Additionally, upon adoption of the new standard, the Mission made judgments regarding lease terms for certain of its real property leases that contained auto-renewal clauses. The Mission estimated a lease end date based on the required length of usage of the property and calculated a right-of-use asset and lease liability with the resulting estimated lease term.

The Mission made significant assumptions and judgments in applying leasing activities. In particular, the Mission:

- Evaluated whether a contract contains a lease, by considering factors such as whether the Mission obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights.
- Determined whether contracts contain embedded leases.

The Mission does not have any material leasing transactions with any related parties.

The following table summarizes the operating lease right-of-use assets and operating lease liabilities as of June 30:

	<u>2025</u>	<u>2024</u>
Operating leases:		
Operating lease right-of-use assets	\$ 427,917	\$ 594,174
Current operating lease liabilities	\$ 168,717	\$ 169,074
Long-term operating lease liabilities	285,123	453,032
Total operating lease liabilities	<u>\$ 453,840</u>	<u>\$ 622,106</u>

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements

June 30, 2025 and 2024

The following table summarizes the finance lease right-of-use assets and finance lease liabilities as of June 30:

	<u>2025</u>	<u>2024</u>
Finance leases:		
Vehicles	\$ 183,740	\$ 147,816
Less accumulated depreciation	(114,189)	(86,898)
	<u>\$ 69,551</u>	<u>\$ 60,918</u>
Current finance leases payable	\$ 54,647	\$ 47,689
Long-term finance leases payable	16,403	14,043
	<u>\$ 71,050</u>	<u>\$ 61,732</u>

Below is a summary of expenses incurred pertaining to operating leases during the years ended June 30:

	<u>2025</u>	<u>2024</u>
Operating lease expense	\$ 183,027	\$ 193,437
Short-term lease expense	14,400	6,000
	<u>\$ 197,427</u>	<u>\$ 199,437</u>

Below is a summary of expenses incurred pertaining to finance leases during the years ended June 30:

	<u>2025</u>	<u>2024</u>
Finance lease expense:		
Amortization of lease assets included in depreciation expense	\$ 55,352	\$ 56,306
Interest on lease liabilities included in interest expense	6,283	5,434
	<u>\$ 61,635</u>	<u>\$ 61,740</u>

The following table summarizes the weighted-average remaining lease term and discount rate as of June 30:

	<u>2025</u>	<u>2024</u>
Weighted-average remaining lease term (years):		
Operating leases	2.37	3.37
Finance leases	1.43	1.40
Weighted-average discount rate:		
Operating leases	3.07 %	3.07 %
Finance leases	10.69 %	8.82 %

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements

June 30, 2025 and 2024

The table below summarizing the Mission's scheduled future minimum lease payments for years ending after June 30, 2025:

	<u>Operating Leases</u>	<u>Finance Leases</u>
Years ending June 30:		
2026	\$ 190,398	\$ 54,647
2027	195,099	21,985
2028	86,378	-
Total lease payments	471,875	76,632
Less present value discount	<u>(18,035)</u>	<u>(5,582)</u>
Total lease liabilities	453,840	71,050
Less current portion	<u>(168,717)</u>	<u>(54,647)</u>
Long-term lease liabilities	<u>\$ 285,123</u>	<u>\$ 16,403</u>

The following table includes supplemental cash flow and noncash information related to leases for the years ended June 30:

	<u>2025</u>	<u>2024</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 185,035	\$ 180,311
Financing cash flows from finance leases	54,667	56,557
Right-of-use assets obtained in exchange for lease liabilities:		
Finance leases	63,985	59,863

As part of 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 \$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 \$51,000 and \$54,025, respectively, for the years ended June 30, 2025 and 2024.

10. 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

June 30, 2025 and 2024

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.

The Mission has also entered into various agreements with donors that are considered conditional contributions, in which funding has been received in advance of services provided. These grants will be recognized as services are provided over the remaining term of the agreements.

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

	<u>2025</u>	<u>2024</u>
Federal Home Loan Bank	\$ 2,000,000	\$ 2,000,000
State of Arizona Department of Housing	3,000,000	3,000,000
Quick Trip Homeless Outreach	1,027,326	1,155,850
Other	-	5,339
	<u>6,027,326</u>	<u>6,161,189</u>
Less current portion	<u>(1,027,326)</u>	<u>(1,161,189)</u>
Deferred conditional contributions, net of current portion	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>

11. Net Assets With Donor Restrictions

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

	<u>2025</u>	<u>2024</u>
Endowments:		
Portion of perpetual endowment funds that are required to be permanently retained	\$ 648,666	\$ 648,666
Investment return on perpetual endowment funds subject to a time restriction under MCFA	13,697	27,714
	<u>662,363</u>	<u>676,380</u>
Subject to purpose restrictions:		
Changing Lives Center	95,304	99,989
Code Red	50,000	-
Food security	40,559	20,000
Health services	-	33,239
Homeless Outreach	20,000	-
Hope for Hunger	18,600	10,223
Other	8,287	3,795
	<u>232,750</u>	<u>167,246</u>
Total	<u>\$ 895,113</u>	<u>\$ 843,626</u>

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements
June 30, 2025 and 2024

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

	<u>2025</u>	<u>2024</u>
Satisfaction of purpose restrictions:		
Changing Lives Center	\$ 82,258	\$ 118,327
Food security	20,000	-
Health services	33,239	-
Homeless Outreach	-	440,238
Hope for Hunger	10,223	58,117
School support	-	5,000
Transforming Lives Center	-	95,000
Other	3,796	42,588
	<u>149,516</u>	<u>759,270</u>
Satisfaction of time restrictions:		
Amounts appropriated for expenditure from donor-restricted endowment funds	<u>27,000</u>	<u>48,831</u>
Total	<u><u>\$ 176,516</u></u>	<u><u>\$ 808,101</u></u>

12. In-Kind Donations

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

	Revenue Recognized as of June 30, 2025	Revenue Recognized as of June 30, 2024	Utilization in Program/Activities	Donor Restrictions	Valuation Technique and Inputs
Water/Beverages	\$ 705,231	\$ 615,014	Hope for Hunger	X	Estimated based on weight of items and use of the annual Feeding America Survey to determine the pound value.
Clothing	450,359	937,326	Hope for Hunger	X	Estimated based on weight of items and use of the annual Feeding America Survey to determine the pound value.
Food	8,480,431	9,107,566	Hope for Hunger	X	Estimated based on weight of items and use of the annual Feeding America Survey to determine the pound value.
Building lease	51,000	54,025	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	134,005	117,078	Hope for Hunger	X	Estimated based on weight of items and use of the annual Feeding America Survey to determine the pound value.
Hygiene products	220,059	287,565	Hope for Hunger	X	Estimated based on weight of items and use of the annual Feeding America Survey to determine the pound value.
Advertising	<u>123,680</u>	<u>-</u>	Fundraising Activities	X	Estimated using the current rate of advertising services provided by vendor operating in the greater Phoenix area.
Total	<u><u>\$ 10,164,765</u></u>	<u><u>\$ 11,118,574</u></u>			

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements

June 30, 2025 and 2024

13. Commitments and Contingencies

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.

Government Funding

The Mission is a recipient of federal, state and local funds. These funds may be subject to audit and final acceptance by the grantors. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

14. 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 Internal Revenue Service (IRS). The Mission matches 100% of the employee's contribution limited to 4% of their total compensation. During the years ended June 30, 2025 and 2024, the Mission matched employee voluntary contributions, resulting in contributions to the plan of approximately \$287,000 and \$230,000, respectively.

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 Form W-2 compensation. As of June 30, 2025 and 2024, the Mission's liability for this deferred compensation plan was approximately \$414,000 and \$302,000, respectively. Contributions by the Mission for the years ended June 30, 2025 and 2024 totaled approximately \$52,000 and \$43,000, respectively.

15. Related-Party Transactions

During the years ended June 30, 2025 and 2024, the Mission received total contributions from Board members, ambassadors and employees of approximately \$202,000 and \$130,000, respectively.

16. Employee Retention Tax Credit

On March 27, 2020, in response to the COVID-19 pandemic, the U.S. Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which among other things, includes the Employee Retention Tax Credit (ERTC). The ERTC allows, based on certain eligibility rules, for a credit against certain payroll taxes based on a percentage of wages paid to each employee commencing on March 13, 2020 and through September 30, 2021. Eligibility and the amount of credit is determined on a quarter-by-quarter basis throughout 2020 and through the third quarter of 2021 based on various factors, including the number of full-time employees employed during 2019, whether there was a partial shutdown of the business due to government orders and/or whether a certain percentage decline of gross receipts occurred during each quarter in 2020 or 2021 versus the same quarter in 2019.

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to Financial Statements

June 30, 2025 and 2024

During the year ended June 30, 2024, the Mission applied for tax credits relating to quarters two through four in the 2020 calendar year and quarters one through three in the 2021 calendar year in the approximate amount of \$2,710,000. Due to the uncertainty of receiving this tax credit, the Mission has not recorded income for these amounts during the years ended 2024 and 2025. Laws and regulations concerning government programs, including the ERTC established by the CARES Act, are complex and subject to varying interpretations. The Mission is subject to possible audit or investigation by the IRS to determine the Mission met the eligibility requirements under the CARES Act.

**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***

Independent Auditors' Report

To the Board of Directors of
Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

We have audited, in accordance with the 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 (*Government Auditing Standards*), the financial statements of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission (the Mission), which comprise the Mission's statement of financial position as of June 30, 2025, 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 January 26, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Mission's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mission's financial statements are free from 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

The purpose of this report is 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly US, LLP

Tempe, Arizona
January 26, 2026

**Report on Compliance
for Each Major Federal Program and
Report on Internal Control Over Compliance
Required by the Uniform Guidance**

Independent Auditors' Report

To the Board of Directors of
Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

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 (the Mission) 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 the Mission's major federal programs for the year ended June 30, 2025. The Mission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Mission complied, in all material respects, with the 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, 2025.

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 (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 the 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 the 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 the 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 the 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 GAAS, *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 the Mission's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *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 the 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 the 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 the 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
January 26, 2026

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2025

Federal Grantor/Pass-Through Grantor / Program	Federal Assistance Listing Number	Pass-Through Agency Grant Number	Federal Expenditures
U.S. Department of Agriculture			
Passed through Arizona Department of Economic Security:			
Supplemental Nutrition Assistance Program Cluster:			
Supplemental Nutrition Assistance Program	10.551	CTR061893	\$ 281,881
Total Supplemental Nutrition Assistance Program Cluster			<u>281,881</u>
Passed through St. Mary's Food Bank:			
Food Distribution Cluster:			
Commodity Supplemental Food Program	10.565	14-456-9365	6,167,985 *
Emergency Food Assistance Program (Food Commodities)	10.569	14-456-9365	2,444,578 *
Total Food Distribution Cluster			<u>8,612,563</u>
Total U.S. Department of Agriculture			<u>8,894,444</u>
U.S. Department of Housing and Urban Development			
CDBG - Entitlement/Special Purpose Grants Cluster:			
Passed through City of Glendale:			
Community Development Block Grants/Entitlement Grants	14.218	C24-0371	24,306
Passed through HFH CDBG:			
Community Development Block Grants/Entitlement Grants	14.218	C22-0853	75,939
Passed through City of Peoria:			
Community Development Block Grants/Entitlement Grants	14.218	ACON - 08925	30,001
Total CDBG - Entitlement Grants Cluster			130,246
Passed through City of Glendale:			
Home Investment Partnerships Program	14.239	C24-0518	168,501
Total U.S. Department of Housing and Urban Development			<u>298,747</u>
U.S. Department of the Treasury			
Passed through Maricopa County:			
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	C-73-24-075-X-00	157,642 *
Passed through City of Scottsdale:			
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	1967RFP24	200,000 *
Passed through Town of Guadalupe:			
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	C2023-32	90,559 *
Passed through City of Avondale:			
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	23-429c	83,746 *
Passed through City of Glendale:			
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	C25-0390	32,361 *
Passed through City of Phoenix:			
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	156830-0	230,426 *
Total U.S. Department of the Treasury			<u>794,734</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 Development Block Grant	93.575	CTR049451-4	192,000
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	SX221273	322,270
Total Child Care and Development Fund Cluster			<u>514,270</u>
Total U.S. Department of Health and Human Services			<u>514,270</u>
Total expenditures of federal awards			<u>\$ 10,502,195</u>

*Denotes major program

See notes to schedule of expenditures of federal awards

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2025

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission (the Mission) under programs of the federal government for the year ended June 30, 2025. 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 the Mission it is not intended to and does not present the financial position, results of operations and cash flows of the Mission.

2. Summary of Significant Accounting Policies

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, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Mission has not elected to use the 10% *de minimis* indirect cost rate as allowed under the Uniform Guidance.

3. Noncash Assistance

Nonmonetary assistance includes all 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 Finding and Questioned Costs
Year Ended June 30, 2025

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a) of the Uniform Guidance?

_____ yes X no

Auditee qualified as low-risk auditee?

_____ yes X no

Dollar threshold used to distinguish between Type A and Type B programs:

 \$750,000

Identification of major federal programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
10.565, 10.569 21.027	Food Distribution Cluster Coronavirus State and Local Fiscal Recovery Funds

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Schedule of Finding and Questioned Costs
Year Ended June 30, 2025

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Summary of Prior Year Findings

None.