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Phoenix Gospel Mission, Inc. dba
Phoenix Rescue Mission

Financial Statements and
Supplementary Information

June 30, 2023 and 2022

Table of Contents
June 30, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022, 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.

Emphasis of Matter

Change in Accounting Principle

As described in Note 1 to the financial statements, on July 1, 2022, the Mission adopted Accounting Standards Codification Topic 842 as required by Accounting Standards Update 2016-02, Leases (Topic 842) and its related amendments. Our opinion is not modified with respect to this matter.

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 November 29, 2023 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
November 29, 2023

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Statements of Financial Position
June 30, 2023 and 2022

	2023	2022 *
Assets		
Cash and cash equivalents	$ 907,486	$ 1,496,658
Grants receivable	736,691	420,652
Promises to give, current portion, net allowance	11,903	34,925
Inventory	209,204	259,439
Prepaid expenses and other assets	551,575	373,046
Total current assets	2,416,859	2,584,720
Promises to Give, Net of Current Portion and Discount	5,034	29,027
Investments	8,068,053	6,389,670
Endowments		
Investments	11,587,743	9,557,687
Estate receivable	1,455,666	1,738,586
	13,043,409	11,296,273
Deferred Compensation Plan Investments	214,772	122,232
Operating Lease Right-of-Use Assets	759,790	-
Finance Lease Right-of-Use Assets	57,360	15,148
Assets Held Under Split Interest Agreements	245,116	219,243
Property and Equipment, Net	24,786,942	25,566,213
Other Assets	29,138	18,000
Total assets	$ 49,626,473	$ 46,240,526

* Reclassified to conform to current year presentation

Statements of Financial Position
June 30, 2023 and 2022

	2023	2022 *
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 633,218	$ 896,772
Accrued expenses and other liabilities	529,955	498,116
Deferred revenue	11,064	65,231
Current portion of annuities payable due under split-interest agreements	13,559	13,558
Current portion of operating lease liabilities	162,915	-
Current portion of finance leases payable	47,904	14,024
Total current liabilities	1,398,615	1,487,701
Annuities Payable Due Under Split-Interest Agreements, Net Current Portion	78,242	86,508
Operating Lease Liabilities, Net of Current	621,544	-
Finance Leases Payable, Net Current Portion	10,522	3,232
Deferred Conditional Contributions	5,000,000	5,000,000
Deferred Compensation Payable	214,772	122,232
Total liabilities	7,323,695	6,699,673
Net Assets		
Without donor restrictions:		
Board designated operating reserves	3,087,916	2,655,666
Board designated endowment fund	12,486,301	10,860,212
Undesignated	25,309,979	25,205,211
	40,884,196	38,721,089
With donor restrictions	1,418,582	819,764
Total net assets	42,302,778	39,540,853
Total liabilities and net assets	$ 49,626,473	$ 46,240,526

See notes to financial statements

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Statements of Activities
Years Ended June 30, 2023 and 2022

	2023			2022 *		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Revenues, Support and Other Income						
Contributions	$ 16,142,686	$ 825,430	$ 16,968,116	$ 19,098,691	$ 352,585	$ 19,451,276
Grants	371,228	-	371,228	1,468,092	-	1,468,092
In-kind donations	11,400,059	-	11,400,059	8,160,302	-	8,160,302
Forgiveness of PPP loan	-	-	-	965,392	-	965,392
Program contracts	2,320,829	-	2,320,829	1,493,543	-	1,493,543
Program service fees	838,173	-	838,173	798,673	-	798,673
Social enterprise revenue	-	-	-	5,889	-	5,889
Other income	13,018	-	13,018	4,016	-	4,016
Release from time and purpose restrictions	293,749	(293,749)	-	147,851	(147,851)	-
	31,379,742	531,681	31,911,423	32,142,449	204,734	32,347,183
Operating Expenses						
Program services	23,610,784	-	23,610,784	18,787,939	-	18,787,939
Management and general	2,470,215	-	2,470,215	1,667,550	-	1,667,550
Fundraising	4,657,738	-	4,657,738	4,533,691	-	4,533,691
	30,738,737	-	30,738,737	24,989,180	-	24,989,180
Change in net assets before nonoperating income (expenses)	641,005	531,681	1,172,686	7,153,269	204,734	7,358,003
Nonoperating Activities						
Investment return	1,522,102	67,137	1,589,239	(2,739,628)	(148,856)	(2,888,484)
Total nonoperating income (expenses)	1,522,102	67,137	1,589,239	(2,739,628)	(148,856)	(2,888,484)
Change in net assets	2,163,107	598,818	2,761,925	4,413,641	55,878	4,469,519
Net Assets, Beginning	38,721,089	819,764	39,540,853	34,307,448	763,886	35,071,334
Net Assets, Ending	$ 40,884,196	$ 1,418,582	$ 42,302,778	$ 38,721,089	$ 819,764	$ 39,540,853

* Reclassified to conform to current year presentation

See notes to financial statements

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services						Supporting Services		
	Food Distribution	Changing Lives Center	Transforming Lives Center	Homeless Outreach	Program Support and Other Programs	Total Program Services	Management and General	Fundraising Activities	Total Expenses
Salaries and wages	$ 303,159	$ 1,879,379	$ 1,364,389	$ 1,076,952	$ 871,210	$ 5,495,089	$ 1,322,933	$ 1,165,105	$ 7,983,127
Payroll taxes and benefits	26,837	140,245	103,525	97,688	68,302	436,597	93,439	93,929	623,965
Employee benefits	79,175	277,221	251,968	204,095	204,810	1,017,269	339,399	217,728	1,574,396
Total personnel services	409,171	2,296,845	1,719,882	1,378,735	1,144,322	6,948,955	1,755,771	1,476,762	10,181,488
Fundraising and public relations	-	230	148	6,493	105,765	112,636	121,217	2,553,410	2,787,263
Direct program supplies and other	301,666	532,637	641,144	599,588	171,517	2,246,552	16,458	465	2,263,475
Building expenses	203,326	434,211	268,053	35,873	6,285	947,748	73,904	48,635	1,070,287
Dues and subscriptions	31	1,916	1,741	1,334	2,625	7,647	12,753	170,150	190,550
Office and supplies expense	517	7,869	3,494	3,955	2,699	18,534	13,968	9,864	42,366
Information technology expense	18,433	83,442	54,035	48,629	39,785	244,324	190,212	176,025	610,561
Insurance expense	30,081	95,568	96,156	7,523	6,329	235,657	45,310	4,925	285,892
Professional fees	46	39	657	-	57,154	57,896	138,244	11,916	208,056
Travel expense	33,739	23,217	48,489	162,802	4,586	272,833	14,979	19,896	307,708
Depreciation	32,111	495,569	626,121	89,569	5,626	1,248,996	87,399	18,867	1,355,262
	1,029,121	3,971,543	3,459,920	2,334,501	1,546,693	12,341,778	2,470,215	4,490,915	19,302,908
Donated food and supplies	11,269,006	-	-	-	-	11,269,006	-	166,823	11,435,829
Total expenses	$ 12,298,127	$ 3,971,543	$ 3,459,920	$ 2,334,501	$ 1,546,693	$ 23,610,784	$ 2,470,215	$ 4,657,738	$ 30,738,737

See notes to financial statements

Phoenix Gospel Mission, Inc. dba Phoenix Rescue Mission

Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services						Supporting Services		
	Food Distribution	Changing Lives Center	Transforming Lives Center	Homeless Outreach	Program Support and Other Programs	Total Program Services	Management and General	Fundraising Activities	Total Expenses
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 notes to financial statements

	2023	2022
Cash Flows From Operating Activities		
Change in net assets	$ 2,761,925	$ 4,469,519
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,355,262	1,194,122
Amortization of right-of-use assets	152,824	-
Gain on disposal of property and equipment	(14,006)	-
Realized/unrealized (gain) loss on investments	(1,214,094)	3,151,511
Change in discount on promises to give	(10,718)	18,177
Change in allowance on promise to give	(15,000)	-
Provision for bad debts	-	4,340
Paycheck Protection Program loan forgiveness	-	(965,392)
Donation of marketable securities	(228,374)	-
Change in value of split-interest agreements	5,335	5,673
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	-	39,318
Grants receivable	(316,039)	(131,470)
Promises to give, net	72,733	628,640
Inventories	50,235	(182,217)
Prepaid expenses and other current assets	(178,529)	(38,672)
Estate receivable	282,920	(1,695,442)
Other assets	(11,138)	-
Increase (decrease) in:		
Accounts payable	(263,554)	(907,526)
Accrued expenses and other liabilities	31,839	(82,301)
Deferred revenue	(54,167)	53,897
Deferred conditional contributions	-	3,000,000
Deferred compensation payable	36,968	35,597
Operating lease liabilities	(128,155)	-
Annuities payable due under split-interest agreements	(13,600)	(13,560)
Net cash provided by operating activities	2,302,667	8,584,214
Cash Flows From Investing Activities		
Purchases of property and equipment	(544,477)	(2,401,061)
Proceeds from the disposal of property and equipment	15,587	-
Purchases of investments	(15,501,146)	(33,145,892)
Proceeds from sales of investments	13,172,334	30,492,131
Net cash used in investing activities	(2,857,702)	(5,054,822)
Cash Flows From Financing Activities		
Payments on notes payable	-	(2,782,492)
Payments on Paycheck Protection Program loan	-	(41,382)
Payments on finance lease payable	(34,137)	(15,270)
Net cash used in financing activities	(34,137)	(2,839,144)
Net increase (decrease) in cash and cash equivalents	(589,172)	690,248
Cash and Cash Equivalents, Beginning	1,496,658	806,410
Cash and Cash Equivalents, Ending	$ 907,486	$ 1,496,658
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 8,962	$ 18,035
Employee contributions made to deferred compensation plan	$ 37,086	$ 35,897
Change in value of deferred compensation	$ 18,486	$ (17,909)
Purchases of property and equipment included in accounts payable	$ -	$ (399,330)
Forgiveness of Paycheck Protection Program loan	$ -	$ (965,392)

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.

Program Support and 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. PRM'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, 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 (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.

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, 2023 and 2022 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 2023 and 2022 calendar year ends. Donated items per pound are valued at the following as of June 30:

	2023	2022
Food	$ 1.57	$ 1.53
Water and beverages	1.04	0.70
Household goods	1.94	2.63
Health and beauty	10.86	9.41
Clothing	15.12	15.00

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.

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 $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 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.

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.

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.

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. As of June 30, 2023 and 2022, these grants included conditional promises to give in the amount of approximately $1,675,000 and $901,000, respectively, which represents unspent amounts included in there grant agreement and 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 the generally accepted accounting principles 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.

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 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022 was $730,160 and $850,420, 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.

Adoption of New Accounting Standard

Effective July 1, 2022, the Mission adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and all related amendments using the modified retrospective approach. The Mission's 2022 financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the statement 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. Lease expense for the Mission's finance leases is comprised of the amortization of the right-of-use asset and interest expense recognized based on the effective interest method. At the date of adoption, the Mission recorded operating lease right-of-use assets and lease liabilities of $747,291 and $764,683, respectively, and finance lease right-of-use assets and lease liabilities of $15,148 and $17,256, respectively.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Mission elected:

- The package of practical expedients permitted under the transition guidance which does not require the Mission to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs;

- The practical expedient to use hindsight in determining the lease term (that is, when considering options to extend or terminate the lease or to purchase the underlying asset) and in assessing impairment of the Mission's right-of-use assets.

The new standard also provides for several accounting policy elections, as follows:

- The Mission has elected the policy not to separate lease and non-lease components for all assets.

- When the rate implicit in the lease is not determinable, rather than use the Mission's incremental borrowing rate, the Mission elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all assets.

- The Mission elected not to apply the recognition requirements to all 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 will continue to be recorded on a straight-line basis over the lease term.

Additional required disclosures for Topic 842 are contained in Note 10.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to confirm 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 November 29, 2023, 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 following table reflects the Mission's financial assets as of June 30, 2023 and 2022 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:

	2023	2022
Cash and cash equivalents	$ 907,486	$ 1,496,658
Grants receivable	736,691	420,652
Current portion of promises to give	11,903	34,925
Investments (non-endowed)	8,068,053	6,389,670
	9,724,133	8,341,905
Board-designated reserves	(3,087,916)	(2,655,666)
Financial assets available to meet cash needs for general expenditures within one year	$ 6,636,217	$ 5,686,239

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 65% of total grants receivable as of June 30, 2023. 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 grantors.

Contributions include amounts from one donor that make up approximately 32% of total revenue, support and other income at June 30, 2023.

4. Promises to Give

Unconditional promises consist of the following at June 30:

	2023	2022
Within one year	$ 10,903	$ 35,940
In one to five years	29,000	63,711
	39,903	99,651
Less allowance for uncollectible promises to give	-	(1,015)
Less discount to net present value at 6.4% and 4.1%	(23,966)	(34,684)
Promises to give, net	$ 15,937	$ 63,952

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

	2023	2022
Current portion of promises to give	$ 10,903	$ 34,925
Promises to give, less current portion	5,034	29,027
Total	$ 15,937	$ 63,952

5. 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.

6. Investments

Investments consist of the following at June 30:

	2023	2022
Operating investments	$ 8,068,053	$ 6,389,670
Endowment investments	11,587,743	9,557,687
Assets held under split interest agreements	245,116	219,243
Deferred compensation plan	214,772	122,232
Total	$ 20,115,684	$ 16,288,832

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

	2023	2022
Interest and dividends	$ 467,102	$ 374,112
Unrealized investment gain (loss)	397,888	(2,077,197)
Realized investment gain (loss)	816,206	(1,074,314)
Investment fees	(91,957)	(111,085)
Total	$ 1,589,239	$ (2,888,484)

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, 2023 and 2022:

	2023			
	Level 1	Level 2	Level 3	Total
Cash and money market	$ 245,244	$ -	$ -	$ 245,244
Equities	3,762,259	-	-	3,762,259
Fixed income	-	10,853,645	-	10,853,645
Exchange traded funds	639,605	-	-	639,605
Mutual funds	4,614,931	-	-	4,614,931
Total	$ 9,262,039	$ 10,853,645	$ -	$ 20,115,684

	2022			
	Level 1	Level 2	Level 3	Total
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	122,232	-	-	122,232
Total	$ 4,132,835	$ 12,155,997	$ -	$ 16,288,832

8. Property and Equipment

Property and equipment consist of the following at June 30:

	2023	2022
Land	$ 1,333,744	$ 1,333,744
Buildings and improvements	29,711,629	29,661,935
Furniture and equipment	1,740,062	1,740,062
Vehicles	868,984	762,159
	33,654,419	33,497,900
Less accumulated depreciation	(9,279,398)	(7,970,117)
	24,375,021	25,527,783
Construction in process	411,921	38,430
	$ 24,786,942	$ 25,566,213

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 $412,000 and $38,000 is included in construction in process as of June 30, 2023 and 2022, respectively. The remaining commitment on these contracts is approximately $126,000 as of June 30, 2023.

Depreciation expense was $1,355,262 and $1,194,122 for the years ended June 30, 2023 and 2022, respectively.

9. Endowment Funds

Endowment net asset composition by type of fund as of June 30, 2023 and 2022 is as follows:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 12,486,301	$ -	$ 12,486,301
Donor-restricted endowment funds:			
Original donor-restricted amount	-	553,910	553,910
Accumulated investment earnings	-	3,198	3,198
Total	$ 12,486,301	$ 557,108	$ 13,043,409

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
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	-	(63,939)	(63,939)
Total	$ 10,860,212	$ 436,061	$ 11,296,273

Changes in endowment funds for the years ended June 30, 2023 and 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Funds
Balance, 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 expenditures	(150,000)	(14,959)	(164,959)
Balance, June 30, 2022	10,860,212	436,061	11,296,273
Contributions and designations	217,369	53,910	271,279
Interest and dividends	332,375	15,730	348,105
Unrealized investment gain	1,420,824	73,077	1,493,901
Realized investment loss	(284,407)	(18,791)	(303,198)
Investment fees	(60,072)	(2,879)	(62,951)
Balance, June 30, 2023	$ 12,486,301	$ 557,108	$ 13,043,409

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). Management interprets 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:

	Original Gift Value	Fair Value	Deficiency
Dan Burton Endowment Fund	$ 500,000	$ 436,061	$ (63,939)

10. Leasing Activities

The Mission leases office equipment, vehicles, and buildings under operating lease agreements that expire at various dates through November 2027. The agreements require monthly payments ranging from approximately $500 to $10,800.

The Mission also leases office equipment and vehicles under various finance lease agreements requiring monthly installments ranging from approximately $1,200 to $1,600, including interest, through April 2025, with imputed interest rates between 4% and 10.23%. 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.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Mission uses the rate implicit in the lease, or if not readily available, the Mission uses a risk-free rate based on U.S. Treasury note or bond rates for a similar 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 in accordance with Topic 842.

The Mission made significant assumptions and judgments in applying the requirements of Topic 842. 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, 2023:

Operating leases:	
Operating lease right-of-use assets	$ 759,790
Current operating lease liabilities	$ 162,915
Long-term operating lease liabilities	621,544
Total operating lease liabilities	$ 784,459

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

	2023	2022
Finance leases:		
Furniture and equipment	$ -	$ 69,531
Vehicles	87,953	-
	87,953	69,531
Accumulated depreciation	(30,593)	(54,383)
	$ 57,360	$ 15,148
Current finance leases payable	$ 47,904	$ 14,024
Long-term finance leases payable	10,522	3,232
Total lease liabilities	$ 58,426	$ 17,256

Below is a summary of expenses incurred pertaining to operating leases during the year ended June 30, 2023:

Operating lease expense	$ 177,282
Short-term lease expense	14,698
Total	$ 191,980

Below is a summary of expenses incurred pertaining to finance leases during the years ended June 30, 2023:

	2023	2022
Finance lease expense:		
Amortization of lease assets included in depreciation expense	$ 44,780	$ 14,188
Interest on lease liabilities included in interest expense	4,217	467
Total	$ 48,997	$ 14,655

The following table summarizes the weighted average remaining lease term and discount rate as of June 30, 2023:

Weighted average remaining lease term (years):	
Operating leases	4.42
Finance leases	1.41
Weighted average discount rate:	
Operating leases	3.07 %
Finance leases	9.28 %

The table below summarizing the Mission's scheduled future minimum lease payments for years ending after June 30, 2023:

	Operating Leases	Finance Leases
Years ending June 30:		
2024	$ 184,721	$ 47,904
2025	185,035	14,688
2026	190,398	-
2027	195,099	-
2028	85,758	-
Total lease payments	841,011	62,592
Less present value discount	(56,552)	(4,166)
Total lease liabilities	784,459	58,426
Less current portion	(162,915)	(47,904)
Long-term lease liabilities	$ 621,544	$ 10,522

The following table includes supplemental cash flow and noncash information related to the leases for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 170,006
Operating cash flows from finance leases	$ 46,783
Financing cash flows from finance leases	$ 4,217
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases	$ 165,323
Finance leases	$ 87,953

Approximate minimum future rental payments under these noncancelable operating leases as of June 30, 2022 are as follows:

Years ending June 30:	
2023	$ 161,000
2024	159,000
2025	63,000
2026	9,000
2027	9,000
Thereafter	1,000
Total	$ 402,000

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 $53,033 and $34,800, respectively, for the years ended June 30, 2023 and 2022. Total lease expense for the years ended June 30, 2023 and 2022 was approximately $244,000 and $168,000, respectively.

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.

12. 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.

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:

	2023	2022
Federal Home Loan Bank	$ 2,000,000	$ 2,000,000
State of Arizona Department of Housing	3,000,000	3,000,000
Total	$ 5,000,000	$ 5,000,000

13. Net Assets With Donor Restrictions

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

	2023	2022
Endowments:		
Portion of perpetual endowment funds that are required to be permanently retained	$ 553,910	$ 500,000
Investment return on perpetual endowment funds subject to a time restriction under MCFA	3,198	(63,939)
	557,108	436,061
Subject to purpose restrictions:		
Changing Lives Center	179,160	166,892
COVID-19	-	1,584
Food security	-	67,149
Health services	5,000	19,679
Homeless Outreach	440,238	-
Hope for Hunger	58,117	51,152
School support	-	8,864
Transforming Lives Center	95,000	-
Other	83,959	68,383
Total	$ 1,418,582	$ 819,764

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

	2023	2022
Satisfaction of purpose restrictions:		
Changing Lives Center	$ 130,172	$ 37,725
COVID-19	1,584	30,968
Food security	67,149	15,509
Health services	19,679	882
Hope for Hunger	17,724	36,288
School support	3,864	10,500
Other	53,577	15,979
Total	$ 293,749	$ 147,851

14. In-Kind Donations

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

	Revenue Recognized as of June 30, 2023	Revenue Recognized as of June 30, 2022	Utilization in Program/Activities	Donor Restrictions	Valuation Technique and Inputs
Water/Beverages	$ 1,276,466	$ 510,584	Hope for Hunger	X	Estimated based on weight of items and use of the annual Feeding America Survey to determine the pound value.
Clothing	784,842	1,195,154	Hope for Hunger	X	Estimated based on weight of items and use of the annual Feeding America Survey to determine the pound value.
Food	8,479,591	5,618,555	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	55,033	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	73,877	289,788	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	730,250	511,421	Hope for Hunger	X	Estimated based on weight of items and use of the annual Feeding America Survey to determine the pound value.
Total	$ 11,400,059	$ 8,160,302			

15. 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.

16. 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, 2023 and 2022, the Mission matched employee voluntary contributions, resulting in contributions to the plan of approximately $232,000 and $216,000, 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, 2023 and 2022, the Mission's liability for this deferred compensation plan was approximately $215,000 and $122,000, respectively. Contributions by the Mission for the years ended June 30, 2023 and 2022 totaled approximately $37,000 and $36,000, respectively.

17. Related Party Transactions

During the years ended June 30, 2023 and 2022, the Mission received total contributions from board members, ambassadors and employees of approximately $145,000 and $323,000, respectively.

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*

<u>Independent Auditors' Report</u>

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, 2023, 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 November 29, 2023.

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
November 29, 2023

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, 2023. 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, 2023.

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
November 29, 2023

Federal Grantor / Pass-Through Grantor / Program	Federal Assistance Listing Number	Grantor's 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	CTR040033	$ 153,051	
Passed through St. Mary's Food Bank:				
Food Distribution Cluster:				
Emergency Food Assistance Program (Food Commodities)	10.569	14-456-965	2,266,784	*
Commodity Supplemental Food Program	10.565	14-456-9365	5,722,223	*
Total Food Distribution Cluster			7,989,007	
Total U.S. Department of Agriculture			8,142,058	
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	273,001	
Child Care and Community Development Block Grant	93.575	P0028203901	155,000	
Total Child Care and Development Fund Cluster			428,001	
Total U.S. Department of Health and Human Services			428,001	
U.S. Department of Housing and Urban Development				
Passed through City of Glendale:				
Emergency Solutions Grant Program	14.231	C20-1126	209,331	
Passed through City of Scottsdale:				
Emergency Solutions Grant Program	14.231	2020-140-COS-CA2	21,444	
			230,775	
CDBG - Entitlement Grants Cluster:				
Passed through City of Peoria:				
Community Development Block Grants/Entitlement Grants	14.218	ACON0-4222	41,307	
Passed through HFH CDBG:				
Community Development Block Grants/Entitlement Grants	14.218	C22-022	637,470	
Passed through Scottsdale Outreach & Navigation:				
Community Development Block Grants/Entitlement Grants	14.218	2021-072-COS	21,420	
Total CDBG - Entitlement Grants Cluster			700,197	
Total U.S. Department of Housing and Urban Development			930,972	
Total expenditures of federal awards			$ 9,501,031	

*Denotes major program

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, 2023. 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.

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 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.

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.

3. Noncash 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.

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?	___ 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 2 CFR 200.516(a)?	___ yes	X no

Identification of major federal programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
10.565	Commodity Supplemental Food Program
10.569	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?	X yes	___ no

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Summary of Prior Year Findings

None.