# FRESNO RESCUE MISSION & AFFILIATES
**Fresno, California**

## CONSOLIDATED FINANCIAL STATEMENTS
**and**
## INDEPENDENT AUDITOR'S REPORT

**For the six months ended June 30, 2021**

**Fresno Rescue Mission & Affiliates**
CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended June 30, 2021

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**Kenneth W. Savage, CPA**

# INDEPENDENT AUDITOR'S REPORT

November 17, 2021

To the Boards of Directors
Fresno Rescue Mission, Inc, Fresno Works, Inc. and Fresno Rescue Mission Foundation, Inc.
Fresno, California

We have audited the accompanying consolidated financial statements of Fresno Rescue Mission & Affiliates (a consolidation of nonprofit organizations), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the six months then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fresno Rescue Mission & Affiliates as of June 30, 2021, and the changes in its net assets and its cash flows for the six months then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Fresno Rescue Mission & Affiliates and to meet our other ethical responsibilities in accordance with the 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 audit opinion.

**Responsibilities of Management for the Financial Statements**
Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated financial statements.
- Obtaining 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 Fresno Rescue Mission and Affiliates' 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Fresno Rescue Mission and Affiliates' 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.

***- Savage & Company***

Savage & Company
Certified Public Accountant

**Fresno Rescue Mission & Affiliates**
Consolidated Statement of Financial Position
June 30, 2021

| | 2021 |
|---|---|
| **ASSETS** | |
| **CURRENT ASSETS** | |
| Cash and cash equivalents (*operations*) | $ 2,579,835 |
| Accounts receivable | 64,239 |
| Inventory | 114,520 |
| Prepaid expenses | 152,493 |
| Deposits and other assets | 55,368 |
| Investments designated for replacement of land and buildings (*Expansion Funds*) | 35,189,862 |
| **TOTAL CURRENT ASSETS** | 38,156,317 |
| **NONCURRENT ASSETS** | |
| Investments | 152,878 |
| Deferred prepaid expenses | 166,314 |
| **PROPERTY AND EQUIPMENT, net** | 20,056,037 |
| **OTHER ASSETS** | |
| Loan origination costs, net | 20,000 |
| **TOTAL ASSETS** | $ 58,551,546 |
| **LIABILITIES AND NET ASSETS** | |
| **CURRENT LIABILITIES** | |
| Accounts payable and accrued expenses | $ 819,907 |
| Accrued compensated absences | 98,211 |
| Deferred income | 21,234 |
| **TOTAL CURRENT LIABILITIES** | 939,352 |
| **RESTRICTED GRANT LIABILITY** | 1,000,000 |
| **TOTAL LIABILITIES** | 1,939,352 |
| **NET ASSETS** | |
| Without donor restrictions | 56,422,292 |
| With donor restrictions | 189,902 |
| **TOTAL NET ASSETS** | 56,612,194 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 58,551,546 |

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

**Fresno Rescue Mission & Affiliates**
Consolidated Statement of Activities
For the six months ended June 30, 2021

| | 2021 | | |
|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
| **OPERATING REVENUE AND SUPPORT:** | | | |
| Contributions | $ 1,895,705 | $ 248,899 | $ 2,144,604 |
| Contributions – in-kind & noncash | 1,131,972 | - | 1,131,972 |
| Thrift Store sales | 937,999 | - | 937,999 |
| Rent income & tenant reimbursements | 149,929 | - | 149,929 |
| Special events income | 96,422 | - | 96,422 |
| Program income | 202,064 | - | 202,064 |
| Investment income (loss) | 4,223 | 5,161 | 9,384 |
| Gain (loss) on sale of assets | 16,281 | - | 16,281 |
| Other income | 33,772 | - | 33,772 |
| Net assets released from restrictions: | | | |
| Satisfaction of restrictions | 157,471 | (157,471) | - |
| **TOTAL OPERATING REVENUE AND SUPPORT** | 4,625,838 | 96,589 | 4,722,427 |
| **EXPENSES:** | | | |
| ***Program Services*** | 4,766,634 | - | 4,766,634 |
| ***Supporting Services:*** | | | |
| Management and general | 261,597 | - | 261,597 |
| Fundraising expenses | 566,185 | - | 566,185 |
| **TOTAL EXPENSES** | 5,594,416 | - | 5,594,416 |
| **CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES** | (968,578) | 96,589 | (871,989) |
| **NONOPERATING:** | | | |
| Nonoperating investment income | 7,218 | - | 7,218 |
| **CHANGE IN NET ASSETS FROM NONOPERATING ACTIVITIES** | 7,218 | - | 7,218 |
| **CHANGE IN NET ASSETS** | (961,360) | 96,589 | (864,771) |
| **NET ASSETS AT BEGINNING OF YEAR** | 57,383,652 | 93,313 | 57,476,965 |
| **NET ASSETS AT END OF YEAR** | $ 56,422,292 | $ 189,902 | $56,612,194 |

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

**Fresno Rescue Mission & Affiliates**
Consolidated Statement of Functional Expenses
For the six months ended June 30, 2021

| | 2021 | | | |
|---|---|---|---|---|
| | | Supporting Services | | |
| | Program | Management and General | Fundraising | Total |
| Salaries and wages | $ 1,515,850 | $ 147,896 | $ 152,608 | $ 1,816,354 |
| Payroll taxes | 119,382 | 6,391 | 14,158 | 139,931 |
| Fringe benefits | 162,674 | 2,196 | 20,446 | 185,316 |
| Cost of goods sold – autos | 77,400 | - | - | 77,400 |
| Cost of goods sold – clothing/other | 380,493 | - | - | 380,493 |
| Advertising and promotion | 20,418 | 313 | 170,627 | 191,358 |
| Bank and credit card fees | 16,907 | - | 32,751 | 49,658 |
| Consultants | 27,000 | - | - | 27,000 |
| Depreciation and amortization | 568,901 | 14,422 | 20,192 | 603,515 |
| Discipleship benevolence | 3,242 | - | - | 3,242 |
| Equipment - noncapital | 39,813 | - | 5,902 | 45,715 |
| Food and vending services | 729,635 | - | 14,686 | 744,321 |
| Insurance | 118,632 | 1,745 | 2,443 | 122,820 |
| Office and operational supplies | 16,662 | 422 | 2,763 | 19,847 |
| Other expense | 26,863 | 67 | 10,067 | 36,997 |
| Postage | 881 | 107 | 1,917 | 2,905 |
| Printing | 14,544 | - | 3,889 | 18,433 |
| Professional fees | 122,783 | 79,282 | 35,857 | 237,922 |
| Program supplies and expense | 78,953 | - | 3,683 | 82,636 |
| Rent – equipment | 18,105 | 876 | 876 | 19,857 |
| Rent – facilities | 64,652 | 95 | 134 | 64,881 |
| Repairs and maintenance | 118,129 | 599 | 838 | 119,566 |
| Security | 51,134 | - | - | 51,134 |
| Special events | 7,605 | - | 59,717 | 67,322 |
| Staff development | 2,057 | - | 376 | 2,433 |
| Taxes, licenses and permits | 13,772 | (64) | (90) | 13,618 |
| Telephone | 60,804 | 3,060 | 3,249 | 67,113 |
| Travel and seminars | 10,870 | 835 | 4,452 | 16,157 |
| Utilities | 322,327 | 2,922 | 4,091 | 329,340 |
| Vehicle expense | 56,146 | 433 | 553 | 57,132 |
| **TOTAL EXPENSES** | $ 4,766,634 | $ 261,597 | $ 566,185 | $ 5,594,416 |

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

**Fresno Rescue Mission & Affiliates**
Consolidated Statement of Cash Flows
For the six months ended June 30, 2021

| | 2021 |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Adjustment to reconcile change in net assets to net cash provided by operating activities: | |
| Change in net assets | $ (864,771) |
| Depreciation and amortization | 603,515 |
| Unrealized losses (gains) on investments | 110,337 |
| Noncash deferred prepaid expense | 22,063 |
| Changes in operating assets and liabilities: | |
| Accounts receivable | 4,531 |
| Inventory | (20,946) |
| Prepaid expenses | (15,750) |
| Deposits | 5,831 |
| Accounts payable, accrued expenses & capital leases | 661,090 |
| Accrued compensated absences | 4,231 |
| Deferred grants and other income | (129,864) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 380,267 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Purchase of property and equipment | (1,358,467) |
| Proceeds from investments liquidated | 578,354 |
| Investment income reinvested | (126,909) |
| **NET CASH USED IN INVESTING ACTIVITIES** | (907,022) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | |
| None | - |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | - |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (526,755) |
| **CASH EQUIVALENTS & RESTRICTED CASH, at beginning of year** | 3,106,590 |
| **CASH EQUIVALENTS & RESTRICTED CASH, at end of year** | 2,579,835 |
| Supplemental disclosure of cash flow information: Cash paid for interest | - |

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

## 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Nature of Activities and Description of Organization*
Fresno Rescue Mission, Inc. (Mission) is a California faith-based nonprofit corporation formed in 1950 to provide rescue services in the greater Fresno County area. The purpose of the Mission is to provide practical material and spiritual assistance to homeless individuals and families and neglected and abused children through rehabilitation programs for alcoholic and drug addicted men and women. The Mission is supported primarily through contributions from individuals and businesses of Fresno County and its affiliates.

Fresno Rescue Mission Foundation (Foundation) is a California nonprofit corporation (charitable support organization) dedicated to the promotion and support of Fresno Rescue Mission Inc. The Foundation acts as a trustee in receiving, investing, managing, administering, and distributing funds for the ministries of the Mission. The Foundation has invested funds in a commercial building and rents the facilities to other nonprofit organizations at favorable rental rates. The Foundation is supported primarily through net rental income and contributions from individuals and businesses of Fresno County.

Fresno Works, Inc. is a California nonprofit corporation with the sole purpose of operating a Thrift Store providing low cost items to the Fresno community. It also provides job-training opportunities for persons in the Mission programs and the community at large.

The accompanying consolidated financial statements include Fresno Rescue Mission, Inc., Fresno Rescue Mission Foundation, and Fresno Works, Inc. These entities are under common control and management and meet the requirements for consolidation under generally accepted accounting standards. All material intercompany profits, transactions and balances have been eliminated in the consolidated financial statements.

*Basis of Presentation*
These financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) *Audit and Accounting Guide for Not-for-Profit Organizations*, (the "Guide"). (ASC) 958-205 was effective for January 1, 2018.

Professional accounting standards require that the organization report information regarding its financial position and activities according to two classes of net assets – net assets without donor restrictions and net assets with donor restrictions. Under these standards, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions.

## 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

*Basis of Presentation (cont)*
Accordingly, the net assets of the organization and changes therein are classified as follows:

> *Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. The organization's board may designate assets without restrictions for specific operational purposes from time to time.
>
> *Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

The organization receives grants and contributions from government agencies, corporations, individuals, etc. Such grants and contributions are recorded when received or unconditionally promised and are considered to be available for the support of the organization's operations, unless specifically restricted by the donor or agency.

*Recent Accounting Pronouncements*
In June 2018, FASB issued ASU No. 2018-08, Not-for-Profit Entities – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The new standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction based on whether a resource provider is receiving value in return for the resources transferred. Further, the ASU provides additional guidance to help determine whether a contribution is conditional and better distinguish a donor-imposed condition from a donor-imposed restriction. The effective date of this amendment is for fiscal years beginning after December 15, 2018. The organization has adopted this accounting standard and presents these statements accordingly. The ASU has been applied retrospectively to all periods.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This amendment has limited applicability to the organization, specifically to two contracts to provide respite services and adult services, the sum total of which are immaterial to the financial statements taken as a whole. Lease contracts and revenue earned are specifically excluded from the definition of revenue in the guidance. The effective date of this amendment is for fiscal years beginning after December 15, 2017. The organization has adopted this accounting standard and presents these statements accordingly. The ASU has been applied retrospectively to all periods.

## 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

*Recent Accounting Pronouncements (cont)*
In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). ASU 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). ASU is effective for fiscal years beginning after December 15, 2021. The organization is assessing the impact this standard will have on its financial statements.

*Cash and Cash Equivalents*
The organization considers all highly liquid debt instruments purchased with maturity dates of three months or less to be cash and cash equivalents. The organization's cash and cash equivalents consist of accounts maintained in recognized financial institutions. Some of these accounts may have balances in excess of federally insured limits. Management continuously monitors its concentration of funds in financial institutions and reports the amounts to the Board of Directors regularly.

*Accounts Receivable*
Accounts receivable are primarily respite and adult services receivable on contracts plus employee receivables for used vehicles sold by Fresno Works, Inc. (Thrift Store). Accounts receivable that are expected to be collected within one year are recorded at net realizable value. All receivables are unsecured. It is the organization's policy to charge off uncollectible receivables when management determines the receivable will not be collected. Management believes all are fully collectible; therefore, no allowance for doubtful accounts has been included in the financial statements.

*Investments*
Investments are reported at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants on the measurement date. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is presented in the statement of activities in accordance with donor restrictions as investment income and included in the change in net assets. Investment income is presented net of investment fees. The average cost method is primarily used to determine the basis for computing realized gains or losses.

*Property and Equipment and Depreciation*
Property and equipment are carried at cost, if purchased, or fair value at the time of contribution, if donated. Depreciation, including amortization of capitalized leases, is computed using the straight-line method with lives for buildings of 30 and 39 years, leasehold improvements 10 years and other property and equipment from 3 to 7 years.

## 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

*Property and Equipment and Depreciation (cont)*
When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. Acquisition of property and equipment in excess of $5,000 are capitalized. Contributed equipment and vehicles are depreciated over their remaining useful lives. Contributed materials are charged to expense as they are consumed. Property and equipment are reviewed for impairment annually. The organization reports gifts of property as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. All depreciation relates to purchased assets.

*Compensated Absences*
The organization has a policy permitting employees to accumulate unused personal time off (PTO) benefits. The maximum that can be accrued by any one employee is 30 days per anniversary year. Upon termination or retirement, unused PTO benefits will be paid at the employee's regular payroll rate. The balance of unused PTO benefits at June 30, 2021 was $98,211 and is included in accrued compensated absences in the accompanying consolidated statement of financial position.

*Deferred Income*
Funds received for special events are deemed to be earned and reported as revenue when the organization has incurred expenditures in connection to those special events. The balance in deferred income at June 30, 2021 of $21,234, represents unearned special events revenue.

*Revenue Recognition*
Contributions are recognized as revenue when received or unconditionally promised. 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. Unconditional contributions are recognized when pledged and recorded as donor restricted support if received with donor stipulations that limit the use of such contributions.

When agency and donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without restrictions and reported in the accompanying consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets with donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation.

## 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

*Revenue Recognition (cont)*
Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and when the assets are placed in service. Conditional promises to give are not included as support until the conditions are substantially met. There were no conditional promises to give at June 30, 2021.

*In-Kind and Noncash Contributions*
Contributed goods for which the organization would have paid for, if not contributed, are recorded at their estimated market value. These goods primarily relate to clothing, food, and vehicles and totaled $1,131,972 for the six months ended June 30, 2021.

*Functional Allocation of Expenses*
The costs of providing the various program and supporting activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Such allocations are determined by management on an equitable basis. The significant expenses that are allocated and the method of allocation include the following:

| Expense | Method of Allocation |
|---|---|
| Salaries and benefits | Departmental assignment |
| Professional services | Budgetary shared allocation |
| Insurance | Square footage |
| Equipment rent | Budgetary shared allocation |
| Repairs and maintenance | Square footage |
| Taxes, licenses & permits | Square footage |
| Utilities | Square footage/Budgetary shared allocation |

*Advertising Costs*
Advertising costs are expensed as incurred.

*Concentrations*
Financial instruments that potentially subject the organization to concentration of credit risk include cash and cash equivalents, mutual funds, certificates of deposit, and fixed income securities. For cash and cash equivalents and mutual funds, the carrying amounts represent a reasonable estimate of the fair values due to their short-term maturity. The fair values of investments are presented in Note 3 to the footnotes. The organization places its cash and investments with high credit quality financial institutions. At times, the account balances may exceed the institution's federally insured limits. Cash accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At June 30, 2021, the organization had cash and cash equivalents of $2,331,935 in excess of the FDIC insured limit.

## 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

*Concentrations (cont)*
Investment accounts at each institution are insured by FDIC, Securities Investor Protection Corporation ("SIPC"), and/or the full faith and guarantee of the federal government for federal securities. At June 30, 2021, the organization had investments of $1,666,041 in excess of the FDIC, SIPC insured limits, and full faith and guarantee of the federal government for federal securities. The organization has not experienced any losses in such cash and investment accounts.

*Use of Estimates*
The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Income Taxes*
The Mission, Foundation, and Fresno Works, Inc. have been recognized by the Internal Revenue Service as tax-exempt organizations under Internal Revenue Code Section 501(c)(3) and have also been recognized by the California Franchise Tax Board as tax-exempt organizations under California Revenue and Taxation Code Section 23701 (d), and contributions to them are tax deductible within the limitations prescribed by the Code. All organizations have been classified as publicly supported organizations, which are not private foundations under Section 509(a) of the Code.

FASB ASC Topic 740, *Income Taxes*, related to accounting for uncertainty in income taxes, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Standard requires that the entity account for and disclose in the consolidated financial statements the impact of a tax position if that position will more likely than not be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The organization has evaluated the financial statement impact of tax positions taken or expected to be taken and determined it has no uncertain tax positions that would require tax assets or liabilities to be recorded in accordance with accounting guidance. The organizations are relying on their exempt status and their adherence to all applicable laws and regulations to preserve that status.

*Measure of Operations*
The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the organization's ongoing activities. Nonoperating activities are limited to Expansion Fund resources that generate a return from investments, sale of nonoperating property, and income and expenses recognized from nonoperating activities.

## 2 - INVESTMENTS

Investments consist of the following:

| | 2021 |
|---|---|
| Mutual funds: | |
| Investment grade bond funds | 33,597 |
| Domestic equity funds | 81,491 |
| International equity funds | 17,154 |
| Treasuries securities funds | 597 |
| Investment cash & equivalents | 39 |
| Total mutual funds | $ 132,878 |
| Annuity | 20,000 |
| | $ 152,878 |

Investments designated for replacement of land and buildings (Expansion Funds) consist of the following:

| | 2021 |
|---|---|
| Certificates of deposit | $ 21,458,993 |
| Investment cash & equivalents | 6,507,636 |
| Federal bonds | 4,014,584 |
| Treasury notes | 2,237,458 |
| Investment grade corporate bonds | 971,191 |
| Money market account | - |
| | $ 35,189,862 |

Investment income, gains, and losses on the above investments are summarized as follows for the six months ended June 30, 2021:

| | 2021 |
|---|---|
| **Operating** | |
| Realized and unrealized gains (losses), net | $ 7,802 |
| Interest and dividend income, net | 1,582 |
| Total operating investment income, net | $ 9,384 |
| **Nonoperating** | |
| Realized and unrealized gains (losses), net | $(118,098) |
| Interest and dividend income, net | 125,316 |
| Total nonoperating investment income, net | $ 7,218 |

## 3 - FAIR VALUES OF INVESTMENTS

***(a). Fair Value Determination***

The fair value of the organization's financial instruments represents management's best estimates of the amounts that would be received to sell those assets in an orderly transaction between market participants at the balance sheet date. Those fair value measurements maximize the use of observable inputs. However, in situations where there are little, if any, observable inputs, management's own judgments about the assumptions of market participants were used in pricing the assets. Those judgments are developed by management based on the best information available in the circumstances.

***(b). Fair Value Hierarchy***

The accounting standards describe three levels of inputs that may be used to measure fair value.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets that the entity has the ability to access at the measurement date.
Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
Level 3 inputs are unobservable inputs for the asset.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2021:

| | Total | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| **Assets included in investments:** | | | | |
| Mutual funds: | | | | |
| Investment grade bond funds | $ 33,597 | $ 33,597 | $ - | $ - |
| Domestic equity funds | 81,491 | 81,491 | - | - |
| International equity funds | 17,154 | 17,154 | - | - |
| Treasuries securities funds | 597 | 597 | - | - |
| | 132,839 | 132,839 | - | - |
| Investment cash & equiv. | 39 | 39 | - | - |
| Annuity | 20,000 | 20,000 | - | - |
| **Total assets included in Investments** | $ 152,878 | $ 152,878 | $ - | $ - |

## 3 - FAIR VALUES OF INVESTMENTS (cont)

### *(b). Fair Value Hierarchy (cont)*

| | Total | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| **Assets included in investments designated for replacement of land and buildings (Expansion Funds):** | | | | |
| Certificates of deposit | $21,458,993 | $ 21,458,993 | $ - | $ - |
| Federal bonds | 4,014,584 | 4,014,584 | - | - |
| Treasury notes | 2,237,458 | 2,237,458 | - | - |
| Investment cash & equivalents | 6,507,636 | 6,507,636 | - | - |
| Investment grade corp. bonds | 971,191 | 971,919 | - | - |
| **Total assets included in investments designated for replacement of land and buildings (Expansion Funds)** | $35,189,862 | $ 35,189,862 | - | - |

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

***Mutual Funds, CD's, Federal bonds, Treasury notes, Investment cash & equivalents, Investment grade corporate bonds, annuities, and Money market accounts*** – Investments in these assets are classified as Level 1, as they can be liquidated in the same day, representing the active and ready market for these assets.

## 4 - PROPERTY AND EQUIPMENT

The following is a summary of the organization's land, buildings and equipment at June 30, 2021:

| | 2021 |
|---|---|
| Land | $ 4,859,112 |
| Buildings and improvement | 15,508,227 |
| Machinery and equipment | 3,166,706 |
| Computer equipment | 145,976 |
| Furniture and fixtures | 393,603 |
| Vehicles | 477,540 |
| Leasehold Improvements | 4,350 |
| Construction in progress | 1,321,011 |
| | 25,876,525 |
| Less: Accumulated depreciation | (5,820,488) |
| | $ 20,056,037 |

Depreciation charged to income was $603,515 in 2021.

## 5 - RESTRICTED GRANT LIABILITY

The Mission entered into an agreement with Premier Valley Bank for a loan funded under a grant provided by the Federal Home Loan Bank in 2012. The grant requires a promissory note and deed of trust on the project for which the funds were expended. The grant amount was $1,000,000 and the funds were used for the remodel of the property purchased for the Rescue the Children (RTC) women's and children program. The grant was awarded to the Mission for the sole purpose of preparing the property for the RTC program and requires that the property be used for this purpose for 15 years ending December 31, 2026.

No interest accrues on the note and the loan does not amortize as long as the property use meets the terms of the agreement. In the event of default, the principal becomes due and payable. If the terms of the agreement are maintained at the maturity date, the loan will be cancelled and recorded as grant revenue. The Mission intends to maintain the property for its intended use under the terms of the agreement to the maturity date.

## 6 - NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets consist of and for the following purposes at June 30, 2021:

| | 2021 |
|---|---|
| Donor-restricted endowment funds - Investment in perpetuity: | |
| Purpose for any activities of the organization | $ 72,000 |
| Donor-restricted funds: | |
| Purpose and/or time restrictions | 117,902 |
| Total net assets with donor restrictions | 189,902 |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors for the six months ended June 30, 2021 as follows:

| | 2021 |
|---|---|
| Satisfaction of program restrictions | |
| Rescue the Children Program (Mission) | $ 50,582 |
| Community Ministries Program (Mission) | 3,967 |
| | 54,549 |
| Subject to NFP spending policy and appropriation: | |
| Investment income from investment in perpetuity | 5,161 |
| Subtotal | 59,710 |
| Satisfaction of equipment acquisition restrictions | |
| Equipment/vehicle purchase | 97,761 |
| Total restrictions released | $ 157,471 |

## 7 - NET ASSETS WITHOUT DONOR RESTRICTIONS - BOARD DESIGNATED AND UNDESIGNATED NET ASSETS

The board designated and undesignated net assets are comprised of the following:

| | 2021 |
|---|---|
| Without donor restrictions: | |
| Designated by the board for purchase of land and buildings (Expansion Funds) | $ 35,189,862 |
| Undesignated | 21,232,430 |
| | $ 56,422,292 |

## 8 - NET ASSETS – ENDOWMENT FUNDS

The Foundation's endowment consists of one fund with an institutional investment company to provide financial support to the Mission and Affiliates. The endowment net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of Relevant Law*
The Foundation is subject to the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are restricted and required to be maintained in perpetuity and the investment income is restricted until the Board of Directors appropriates such amounts for expenditure. The Foundation's Board of Directors has interpreted the UPMIFA as not requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required by law. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the endowment fund;
(2) The purposes of the organization and the endowment fund;
(3) General economic conditions;
(4) The possible effect of inflation or deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of the organization; and
(7) The investment policy of the organization.

Endowment net asset composition by type of fund consists of the following as of June 30, 2021:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 72,000 | $ 72,000 |

## 8 - NET ASSETS – ENDOWMENT FUNDS (cont)

Changes in endowment net assets for the six months ended June 30, 2021 are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets, January 1, 2021 | $ - | $ 72,000 | $ 72,000 |
| Investment return: | | | |
| Investment income | - | 870 | 870 |
| Net appreciation (realized and unrealized) | - | 4,291 | 4,291 |
| Total investment return | - | 5,161 | 5,161 |
| Contributions to endowment | - | - | - |
| Appropriations of endowment assets for expenditure | - | (5,161) | (5,161) |
| Endowment net assets, June 30, 2021 | $ - | $ 72,000 | $ 72,000 |

*Spending Policy, Investment Policy, Objectives, and Risk Tolerance*
The organization uses a method based upon total return on assets to determine the amounts appropriated for expenditure for endowments under which the organization is the income beneficiary in conformity with UPMIFA. To satisfy its long-term rate-of-return objectives, the organization seeks investment returns through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The organization targets a diversified asset allocation that includes equity and debt investments to achieve its long-term return objectives within prudent risk restraints.

The Foundation Board of Directors has a spending policy on all endowments, such that distribution amounts will be determined prior to the new fiscal year based on the previous twelve quarters-end average market value, whenever possible. In any given year, the distribution of an individual endowment or endowments may be less than 5% if the total return is not enough to preserve the purchasing power of the fund.

*Underwater Endowment Funds*
From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. There are no funds that were underwater for the six months ended June 30, 2021. The organization has a policy that permits spending underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

## 9 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the organization's financial assets as of the consolidated statement of financial position date, reduced by amounts not available for general use because of contractual, donor-imposed regulation, or Board designations within one year of the consolidated statement of financial position date. However, amounts already appropriated from the donor-restricted endowment for general expenditure within one year of the consolidated statement of financial position date have not been subtracted as unavailable:

| | 2021 |
|---|---|
| **Financial assets at year end**: | |
| Cash & cash equivalents | $ 2,579,835 |
| Accounts receivable | 64,239 |
| Inventory | 114,520 |
| Investments (Expansion Funds) | 35,189,862 |
| Investments (other) | 152,878 |
| Less those unavailable for general expenditures within one year due to: | |
| Contractual or donor-imposed restrictions | (189,902) |
| Board-designated investments for replacement of land and buildings | (35,189,862) |
| Financial assets available to meet cash needs for general expenditures within one year | $ 2,721,570 |

The organization is substantially supported by unrestricted contributions and receives some restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the organization must maintain sufficient resources to meet those responsibilities to its donors. Thus financial assets may not be available for general expenditure within one year.

As part of the organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. The organization invests cash in excess of daily requirements in short-term investments. In addition, the organization has Board-designated investments of $35,189,862. Although the organization does not intend to spend from its Board-designated funds, amounts from its funds could be made available if necessary.

## 10 - COMMITMENTS AND CONTINGENCIES

### *(a) Lease Commitments*

The organization leases certain facilities and equipment under short and long-term lease agreements. The lease of the thrift store facility by Fresno Works, Inc. is classified as an operating lease and expires in 2023. The leases of equipment are classified as operating leases and expires in 2023.

## 10 - COMMITMENTS AND CONTINGENCIES (cont)

### *(a) Lease Commitments (cont)*

The future minimum lease payments under the operating lease agreements follows:

| Year ended June 30 | Total |
|---|---|
| 2022 | $ 124,928 |
| 2023 | 128,644 |
| 2024 | - |
| 2025 | - |
| 2026 | - |
| Total minimum lease payments | $ 253,572 |

Rental expense for all operating leases amounted to $61,661 for the six months ended June 30, 2021.

### *(b) Contingencies*

The organization is subject to certain loss contingencies, such as litigation, arising in the normal conduct of its activities. In the opinion of the organization's management, the liability, if any, for such contingencies will not have a material effect on the organization's financial position.

## 11 - RELATED PARTY TRANSACTIONS

The organization had certain transactions in the ordinary course of business with related parties. Fresno Rescue Mission, Inc., Fresno Rescue Mission Foundation, and Fresno Works, Inc. are under common control and management, which require elimination of intercompany profits, transactions and balances in the consolidated financial statements.

The following intercompany accounts and transactions were eliminated for the six months ended June 30, 2021:

| | | **2021** |
|---|---|---|
| Mission payments to affiliate (Foundation) | - | $ 578,354 |
| Mission payments to affiliate (Fresno Works, Inc) | | $ 14,203 |
| Foundation receivable from Mission | | $ 238 |
| Mission receivable from Foundation | | $ 15,551 |

## 12 - SUBSEQUENT EVENTS

The organization has evaluated subsequent events through November 17, 2021, the date on which the consolidated financial statements were available to be issued. Management has concluded the following subsequent event requires disclosure in the financial statements:

*Financing - New Markets Tax Credit*
The Foundation is working with a New Market Tax Credit consulting firm to obtain financing for a capital improvement development project. The amount of financing through New Market Tax Credit loan funding and Affordable Housing Program grant is estimated to be approximately $5,000,000. Fees for this funding of $20,000 have been paid in the process of beginning this financing process.

The Foundation has signed capital improvement contracts and made Board commitments totaling approximately $2,000,000.