

FRESNO RESCUE MISSION & AFFILIATES
Fresno, California

CONSOLIDATED FINANCIAL STATEMENTS
and
INDEPENDENT AUDITOR'S REPORT

For the year ended June 30, 2022

Fresno Rescue Mission & Affiliates
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended June 30, 2022

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Kenneth W. Savage, CPA

INDEPENDENT AUDITOR'S REPORT

February 6, 2023

To the Boards of Directors
Fresno Rescue Mission, Inc, Fresno Works, Inc., Fresno Rescue Mission Foundation, and
Fresno City Center Corporation
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, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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, 2022, and the changes in its net assets and its cash flows for the year 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, 2022

	<u>2022</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and cash equivalents (<i>operations</i>)	\$ 2,493,883
Cash and cash equivalents (<i>Expansion Funds</i>)	\$ 6,204,701
Accounts receivable	55,239
Inventory	108,816
Prepaid expenses	109,339
Deposits and other assets	368,322
Investments designated for replacement of land and buildings (<i>Expansion Funds</i>)	<u>16,524,224</u>
TOTAL CURRENT ASSETS	25,864,524
NOTE RECEIVABLE	10,612,500
NONCURRENT ASSETS	
Investments	130,282
Deferred prepaid expenses	122,189
PROPERTY AND EQUIPMENT, net	36,433,667
OTHER ASSETS	
Loan origination costs, net	<u>679,218</u>
TOTAL ASSETS	<u>\$ 73,842,380</u>
<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 1,881,534
Accrued compensated absences	<u>120,790</u>
TOTAL CURRENT LIABILITIES	2,002,324
LONG-TERM DEBT	14,400,000
RESTRICTED GRANT LIABILITY	<u>1,000,000</u>
TOTAL LIABILITIES	<u>17,402,324</u>
NET ASSETS	
Without donor restrictions	56,100,569
With donor restrictions	<u>339,487</u>
TOTAL NET ASSETS	<u>56,440,056</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 73,842,380</u>

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

Fresno Rescue Mission & Affiliates
Consolidated Statement of Activities
For the year ended June 30, 2022

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE AND SUPPORT:			
Contributions	\$ 4,667,983	\$ 741,100	\$ 5,409,083
Contributions – in-kind & noncash:			
Clothing, furniture & other for resale	844,373	-	844,373
Vehicles for resale	64,376	-	64,376
Food	1,020,037	-	1,020,037
Real property	16,602	-	16,602
Thrift Store sales	1,846,614	-	1,846,614
Rent income & tenant reimbursements	399,848	-	399,848
Special events income	444,736	-	444,736
Program income	368,034	-	368,034
Investment income (loss)	23,444	-	23,444
Gain (loss) on sale of assets	135	-	135
Other income	43,699	-	43,699
Net assets released from restrictions:			
Satisfaction of restrictions	591,515	(591,515)	-
TOTAL OPERATING REVENUE AND SUPPORT	10,331,396	149,585	10,480,981
EXPENSES:			
<i>Program Services</i>	9,402,969	-	9,402,969
<i>Supporting Services:</i>			
Management and general	528,413	-	528,413
Fundraising expenses	1,148,264	-	1,148,264
TOTAL EXPENSES	11,079,646	-	11,079,646
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(748,250)	149,585	(598,665)
NONOPERATING:			
Nonoperating investment income	(204,390)	-	(204,390)
Nonoperating gain on High-Speed Railroad settlements	630,917	-	630,917
CHANGE IN NET ASSETS FROM NONOPERATING ACTIVITIES	426,527	-	426,527
CHANGE IN NET ASSETS	(321,723)	149,585	(172,138)
NET ASSETS AT BEGINNING OF YEAR	56,422,292	189,902	56,612,194
NET ASSETS AT END OF YEAR	\$ 56,100,569	\$ 339,487	\$56,440,056

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

Fresno Rescue Mission & Affiliates
Consolidated Statement of Functional Expenses
For the year ended June 30, 2022

	2022			
	Program	Supporting Services		Total
		Management and General	Fundraising	
Salaries and wages	\$ 3,231,839	\$ 316,294	\$ 226,077	\$ 3,774,210
Payroll taxes	230,769	18,425	23,158	272,352
Fringe benefits	315,825	38,722	32,156	386,703
Cost of goods sold – autos	119,373	-	-	119,373
Cost of goods sold – clothing/other	840,461	-	-	840,461
Advertising and promotion	113,994	2,006	509,672	625,672
Bank and credit card fees	33,531	50	64,017	97,598
Consultants	18,417	4,500	36,000	58,917
Depreciation and amortization	830,571	20,509	28,712	879,792
Discipleship benevolence	15,593	-	-	15,593
Equipment - noncapital	41,799	-	3,023	44,822
Food and vending services	1,096,999	-	30,780	1,127,779
Insurance	252,996	4,047	5,665	262,708
Interest	44,401	-	-	44,401
Office and operational supplies	27,864	574	5,120	33,558
Other expense	45,317	412	31,485	77,214
Postage	3,649	426	6,686	10,761
Printing	21,027	-	7,395	28,422
Professional fees	255,917	102,385	78,760	437,062
Program supplies and expense	140,938	-	310	141,248
Rent – equipment	31,015	1,841	1,841	34,697
Rent – facilities	125,225	36	51	125,312
Repairs and maintenance	244,317	1,284	1,798	247,399
Security	37,973	-	-	37,973
Special events	248,930	-	26,395	275,325
Staff development	9,091	-	839	9,930
Taxes, licenses and permits	29,486	168	235	29,889
Telephone	125,490	6,177	6,177	137,844
Travel and seminars	25,414	2,025	10,292	37,731
Utilities	690,371	7,134	9,988	707,493
Vehicle expense	154,377	1,398	1,632	157,407
TOTAL EXPENSES	\$ 9,402,969	\$ 528,413	\$ 1,148,264	\$ 11,079,646

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

Fresno Rescue Mission & Affiliates
Consolidated Statement of Cash Flows
For the year ended June 30, 2022

	2022
CASH FLOWS FROM OPERATING ACTIVITIES	
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Change in net assets	\$ (172,138)
Depreciation and amortization	879,792
Unrealized losses (gains) on investments	391,867
Noncash deferred prepaid expense	44,125
Changes in operating assets and liabilities:	
Accounts receivable	9,000
Inventory	5,704
Prepaid expenses	43,154
Deposits	(312,954)
Accounts payable, accrued expenses & capital leases	1,061,627
Accrued compensated absences	22,579
Deferred grants and other income	(21,234)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,951,522
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(17,251,190)
Proceeds from investments liquidated	18,463,748
Investment income reinvested	(167,381)
Loan made in relation to NMTC financing	(10,612,500)
Loan origination fees paid	(665,450)
NET CASH USED IN INVESTING ACTIVITIES	(10,232,773)
CASH FLOWS FROM FINANCING ACTIVITIES	
Loan proceeds from NMTC financing	14,400,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	14,400,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,118,749
CASH EQUIVALENTS & RESTRICTED CASH, at beginning of year	2,579,835
CASH EQUIVALENTS & RESTRICTED CASH, at end of year	8,698,584
Supplemental disclosure of cash flow information: Cash paid for interest	44,401

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

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

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.

Fresno City Center Corporation a California nonprofit corporation with the sole purpose of development and construction of program facilities at Clark Street and Dakota Avenue, Fresno, California using financing from the New Market Tax Credit program.

The accompanying consolidated financial statements include Fresno Rescue Mission, Inc., Fresno Rescue Mission Foundation, Fresno Works, Inc. and Fresno City Center Corporation. 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.

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

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

Basis of Presentation (cont)

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.

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 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.

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

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

Accounts Receivable (cont)

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.

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 paid 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, 2022 was \$120,790 and is included in accrued compensated absences in the accompanying consolidated statement of financial position.

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

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

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.

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, 2022.

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 \$1,928,786 for the year ended June 30, 2022. In addition, land valued at \$16,602 was donated.

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:

<u>Expense</u>	<u>Method of Allocation</u>
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.

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

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

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, 2022, the organization had cash and cash equivalents of approximately \$7.9 million in excess of the FDIC insured limit. A component of the above amount in excess of the FDIC insured limit include cash and cash equivalents in one institution totaling approximately \$6 million that was a required condition of the New Market Tax Credit lender. Management utilizes investment strategies and cash management procedures to minimize concentrations of cash to the extent permitted by daily cash flow needs in response to operations, City Center development, and contractual obligations of New Market Tax Credit agreements.

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, 2022, the organization had investments of approximately \$4.7 million 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 realized 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, Fresno Works, Inc. and Fresno City Center Corporation 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.

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

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

Income Taxes (cont)

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:

	2022
Mutual funds:	
Investment grade bond funds	29,799
Domestic equity funds	69,492
International equity funds	12,101
Treasuries securities funds	597
Investment cash & equivalents	793
Total mutual funds	\$ 112,782
Annuity	17,500
	\$ 130,282

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

	2022
Certificates of deposit	\$ 4,803,805
Investment cash & equivalents	5,045,913
Federal bonds	4,612,994
Treasury notes	1,460,456
Investment grade corporate bonds	601,056
Money market account	-
	\$ 16,524,224

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

2 - INVESTMENTS (cont)

Investment income, gains, and losses on the above investments are summarized as follows for the year ended June 30, 2022:

	2022
Operating	
Realized and unrealized gains (losses), net	\$ (27,649)
Interest and dividend income, net	8,112
Subtotal	(19,537)
Interest income from note receivable	42,981
Total operating investment income, net	\$ 23,444
Nonoperating	
Realized and unrealized gains (losses), net	\$(364,218)
Interest and dividend income, net	159,828
Total nonoperating investment income (loss), net	\$(204,390)

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.

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

3 - FAIR VALUES OF INVESTMENTS (cont)

(b). Fair Value Hierarchy (cont)

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2022:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets included in investments:				
Mutual funds:				
Investment grade bond funds	\$ 29,799	\$ 29,799	\$ -	\$ -
Domestic equity funds	69,492	69,492	-	-
International equity funds	12,101	12,101	-	-
Treasuries securities funds	<u>597</u>	<u>597</u>	<u>-</u>	<u>-</u>
	111,989	111,989	-	-
Investment cash & equiv.	793	793	-	-
Annuity	<u>17,500</u>	<u>17,500</u>	<u>-</u>	<u>-</u>
Total assets included in Investments	<u>\$ 130,282</u>	<u>\$ 130,282</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets included in investments designated for replacement of land and buildings (Expansion Funds):				
Certificates of deposit	\$ 4,803,805	\$ 4,803,805	\$ -	\$ -
Federal bonds	4,612,994	4,612,994	-	-
Treasury notes	1,460,456	1,460,456	-	-
Investment cash & equivalents	5,045,913	5,045,913	-	-
Investment grade corp. bonds	<u>601,056</u>	<u>601,056</u>	<u>-</u>	<u>-</u>
Total assets included in investments designated for replacement of land and buildings (Expansion Funds)	<u>\$16,524,224</u>	<u>\$ 16,524,224</u>	<u>-</u>	<u>-</u>

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

3 - FAIR VALUES OF INVESTMENTS (cont)

(b). Fair Value Hierarchy (cont)

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 - NOTES RECEIVABLE

FRM Phase I Investment Fund, LLC

Pursuant to two promissory notes each dated March 11, 2022, the Mission loaned funds to the FRM Phase I Investment Fund, LLC in the combined amount of \$10,612,500. The terms of the agreement require interest only at 1.35% payable quarterly beginning June 15, 2022 through March 15, 2029. Beginning June 15, 2029 the terms of the agreement require principal plus interest at 1.35% payable quarterly for interest accruing from March 16, 2029 until loan is due and payable on March 11, 2055. The loan is secured by a pledge agreement dated March 11, 2022 by and between the Mission and PNC Bank. See also Note 7.

5 - LOAN ORIGINATION COSTS

Loan origination costs are stated net of accumulated amortization and totaled \$685,450 for the year ended June 30, 2022. The organization is amortizing these costs over the contractual life of the related loan of 35 years using the straight-line method. Debt issuance costs of \$6,232 were charged to amortization expense for the year ended June 30, 2022.

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

6 - PROPERTY AND EQUIPMENT

The following is a summary of the organization's land, buildings and equipment at June 30, 2022:

	2022
Land	\$ 13,211,085
Buildings and improvement	15,512,577
Machinery and equipment	3,166,706
Computer equipment	145,976
Furniture and fixtures	393,603
Vehicles	510,040
Construction in progress	10,187,728
	43,127,715
Less: Accumulated depreciation	(6,694,048)
	\$ 36,433,667

Depreciation charged to income was \$873,560 in 2022.

7 - LONG TERM DEBT

	2022
Note Payable to PNC Bank (Note A) by Fresno City Center Corporation ; payable interest only quarterly at 1.0% through June 15, 2029; thereafter, payable principal and interest annually at 1.0% to maturity on March 11, 2057; secured by real property (City Center property)	\$ 10,612,500
Note Payable to PNC Bank (Note B) by Fresno City Center Corporation ; payable interest only quarterly at 1.0% through June 15, 2029; thereafter, payable principal and interest annually at 1.0% to maturity on March 11, 2057; secured by real property (City Center property)	3,787,500
Subtotal	14,400,000
Less: Current maturities of long-term debt	-
	\$ 14,400,000

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

7 - LONG TERM DEBT (cont)

Maturities of long term debt in each of the next five years are as follows:

Year ended June 30	Total
2023	\$ -
2024	-
2025	-
2026	-
2027	-
Thereafter	<u>14,400,000</u>
	<u>\$ 14,400,000</u>

FRM Phase I Investment Fund, LLC is owned by another entity; PNC New Markets Investment Partners, LLC. The Mission and the owner of this parent entity are parties to an Option Agreement (Put & Call Agreement) that provides an option for the Mission to purchase FRM Phase I Investment Fund, LLC for \$1,000 on or after April 1, 2029. Management anticipates that this option will be exercised, in which case the Mission will become the owner of the LLC referred to above. Subsequently, this entity will be dissolved, the debt principal of \$14,400,000 will be forgiven, and unamortized loan costs will be deducted from the debt forgiven.

8 - 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.

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

9 - NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets consist of and for the following purposes at June 30, 2022:

	<u>2022</u>
Donor-restricted endowment funds - Investment in perpetuity:	
Purpose for any activities of the organization	\$ 72,000
Donor-restricted funds: Purpose and/or time restrictions	<u>267,487</u>
 Total net assets with donor restrictions	 <u>339,487</u>

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 year ended June 30, 2022 as follows:

	<u>2022</u>
<u>Satisfaction of program restrictions</u>	
City Center property remodel & improvements	\$ 460,600
Rescue the Children Program (Mission)	41,406
Scholarships	2,500
Other program_expenses	<u>52,197</u>
	556,703
 <u>Subject to NFP spending policy and appropriation:</u>	
Investment income from investment in perpetuity	<u>1,312</u>
 Subtotal	 558,015
<u>Satisfaction of equipment acquisition restrictions: Vehicle purchase</u>	<u>33,500</u>
 Total restrictions released	 <u>\$ 591,515</u>

10 - NET ASSETS WITHOUT DONOR RESTRICTIONS - BOARD DESIGNATED AND UNDESIGNATED NET ASSETS

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

	<u>2022</u>
Without donor restrictions:	
Designated by the board for purchase of land and buildings (Expansion Funds)	\$ 16,524,224
Undesignated	<u>39,576,345</u>
	 <u>\$ 56,100,569</u>

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

11 - NET ASSETS – ENDOWMENT FUNDS

The Mission’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 Mission 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 Mission’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 Mission 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 Mission has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required by law. In accordance with UPMIFA, the Mission 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, 2022:

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

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

11 - NET ASSETS – ENDOWMENT FUNDS (cont)

Changes in endowment net assets for the year ended June 30, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2021	\$ -	\$ 72,000	\$ 72,000
Investment return:			
Investment income	-	-	-
Net appreciation (realized and unrealized)	-	-	-
Total investment return	-	-	-
Contributions to endowment	-	-	-
Appropriations of endowment assets for expenditure	-	-	-
Endowment net assets, June 30, 2022	\$ -	\$ 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 Mission 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 year ended June 30, 2022. 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.

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

12 - 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:

	2022
Financial assets at year end:	
Cash & cash equivalents	\$ 8,698,584
Accounts receivable	55,239
Inventory	108,816
Investments (Expansion Funds)	16,524,224
Investments (other)	130,272
Less those unavailable for general expenditures within one year due to:	
Contractual or donor-imposed restrictions	(339,487)
Board-designated investments for replacement of land and buildings	<u>(16,524,224)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,653,424</u>

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 \$16,524,224. Although the organization does not intend to spend from its Board-designated funds, amounts from its funds could be made available if necessary.

13 - 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 lease is expected to be extended. The leases of equipment are classified as operating leases and expires in 2023.

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

13 - COMMITMENTS AND CONTINGENCIES (cont)

(a) Lease Commitments (cont)

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

Year ended <u>June 30</u>	<u>Total</u>
2023	\$ 128,644
2024	64,724
2025	-
2026	-
2027	<u>-</u>
Total minimum lease payments	<u>\$ 193,368</u>

Rental expense for all operating leases amounted to \$125,226 for the year ended June 30, 2022.

(b) Contingencies

Fresno City Center Corporation has entered into a loan in the form of notes payable with PNC Bank in connection with New Markets Tax Credits Program (NMTCs). As a result, the lender is eligible for federal income tax credits under the NMTCs under Internal Revenue Code 45D. Fresno City Center Corporation and the Mission has entered into an indemnification agreement with PNC Bank and PNC New Markets Investment Partners, LLC (“PNC NMIP”) to pay the *NMTC Credit Reduction Amount* to the NMTC investor if the recapture event is the result of (i) Fresno City Center Corporation not being or ceasing to be a QALICB; (ii) the failure of any tenant or subtenant of the Project to constitute a Qualified Business; (iii) the redemption by FRM Phase I Investment Fund LLC of any portion of the QEI in the Sub-CDE; (iv) any other matters or events solely within the control of the Indemnitors that cause a recapture or disallowance of all or a portion of the NMTC’s under Section 45D of the Code and the Treasury Regulations thereunder. See also Note 7 regarding an option to purchase the FRM Phase I Investment Fund, LLC.

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.

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

14 - 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, Fresno Works, Inc. and Fresno City Center Corporation 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 year ended June 30, 2022:

		<u>2022</u>
Mission payments to affiliate (Foundation)	-	\$ 248,729
Fresno Works, Inc. payments to affiliate (Mission)		\$ 1,201,337
Foundation payments to affiliate (Fresno City Center Corp.)		\$ 2,575,639
Mission receivable from Foundation		\$ 89,385

15 - FINANCIAL STATEMENTS OF FRESNO CITY CENTER CORPORATION

Following are the separate entity financial statements for Fresno City Center Corporation, excluding intercompany eliminations, presented in accordance with Section 15(b)(vi) of the QLICI loan agreement:

ASSETS

CURRENT ASSETS

Cash and cash equivalents (*Expansion Funds*) \$ 6,204,701

TOTAL CURRENT ASSETS 6,204,701

PROPERTY AND EQUIPMENT, net 11,345,428

OTHER ASSETS

Loan origination costs, net 628,098

TOTAL ASSETS \$ 18,178,227

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses \$ 1,347,148

TOTAL CURRENT LIABILITIES 1,347,148

LONG-TERM DEBT 14,400,000

TOTAL LIABILITIES 15,747,148

NET ASSETS

Without donor restrictions 2,431,079

With donor restrictions -

TOTAL NET ASSETS 2,431,079

TOTAL LIABILITIES AND NET ASSETS \$ 18,178,227

Fresno Rescue Mission & Affiliates
Notes to Consolidated Financial Statements
For the year ended June 30, 2022

15 - FINANCIAL STATEMENTS OF FRESNO CITY CENTER CORPORATION (cont)

OPERATING REVENUE AND SUPPORT:

Contributions:	
Cash from intercompany related party	\$ 169,466
Noncash from intercompany related party	2,406,173
Rent income & tenant reimbursements	-
Investment income (loss)	<u>253</u>
TOTAL OPERATING REVENUE AND SUPPORT	<u>2,575,892</u>

EXPENSES:

<i>Program Services</i>	144,813
<i>Supporting Services:</i>	
Management and general	-
Fundraising expenses	<u>-</u>
TOTAL EXPENSES	<u>144,813</u>

CHANGE IN NET ASSETS	2,431,079
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NET ASSETS AT BEGINNING OF YEAR	<u>-</u>
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NET ASSETS AT END OF YEAR	<u><u>\$ 2,431,079</u></u>
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16 - SUBSEQUENT EVENTS

The organization has evaluated subsequent events through February 6, 2023, 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:

Phase 2 Financing - New Markets Tax Credit

Fresno City Center Corporation is working with a New Market Tax Credit consulting firm to obtain additional NMTC financing for Phase 2 development of property at Cark Street and Dakota Avenue. The amount funding needed for Phase 2 is estimated to be approximately \$22 million. Pre-transaction fees for this funding of \$35,000 have been paid in the process of beginning this financing process and early construction costs for Phase 2 of approximately \$1,500,000 have been incurred and are eligible for funding reimbursement. In addition, the organization has applied to receive an Affordable Housing Loan of \$1,000,000 for Phase 2 construction.