

MODESTO GOSPEL MISSION

FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2023 AND 2022



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INDEPENDENT AUDITOR'S REPORT

November 2, 2023

Board of Directors
Modesto Gospel Mission
Modesto, California

Opinion

We have audited the accompanying financial statements of Modesto Gospel Mission (the Organization), which comprise the statements of financial position as of June 30, 2023 and 2022, the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization has elected to adopt Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, for the year ended June 30, 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Scott Kerr | Loren Kuntz | Rebecca Terpstra | Craig Schaurer | Marissa Williams | Jackie Howell | Natalya Mann

An independently owned member
RSM US Alliance



P 209.577.4800

F 209.577.1323

1140 Scenic Drive

P.O. Box 4339

Modesto, CA 95352-4339

athertoncpas.com

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Atherton & Associates, LLP

MODESTO GOSPEL MISSION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

	<u>ASSETS</u>	
	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 625,867	\$ 1,748,348
Certificates of deposit	872,772	-
Grant receivable	121,996	98,279
Other receivables	1,783	227
Employee retention credit receivable	623,878	-
Inventory	165,378	276,446
Marketable securities	662,323	18,496
Prepays	44,101	41,105
Promises to give	-	2,000
Total current assets	<u>3,118,098</u>	<u>2,184,901</u>
PROPERTY, PLANT, AND EQUIPMENT, net	<u>4,687,247</u>	<u>4,642,231</u>
NONCURRENT ASSETS		
Operating lease right-of-use assets	63,273	-
Note receivable	-	150,000
Total noncurrent assets	<u>63,273</u>	<u>150,000</u>
TOTAL ASSETS	<u><u>\$ 7,868,618</u></u>	<u><u>\$ 6,977,132</u></u>
	<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES		
Accounts payable	\$ 73,791	\$ 32,964
Accrued payroll and payroll taxes	14,336	27,248
Unearned revenue	15,200	2,500
Accrued vacation	57,631	44,030
Accrued expenses	28,735	14,033
Note payable	6,628	6,306
Operating lease liabilities	34,995	-
Total current liabilities	<u>231,316</u>	<u>127,081</u>
NONCURRENT LIABILITIES		
Note payable	217,702	224,175
Operating lease liabilities	28,237	-
Total noncurrent liabilities	<u>245,939</u>	<u>224,175</u>
NET ASSETS		
Net assets without donor restrictions	7,059,351	6,269,158
Net assets with donor restrictions	332,012	356,718
Total net assets	<u>7,391,363</u>	<u>6,625,876</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,868,618</u></u>	<u><u>\$ 6,977,132</u></u>

MODESTO GOSPEL MISSION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2023

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
SUPPORT			
Contributions	\$ 2,662,641	\$ 56,161	\$ 2,718,802
Event revenue, net of expense of \$55,559	89,233	-	89,233
Grants	-	125,000	125,000
Employee retention credit	1,001,272	-	1,001,272
Contributed nonfinancial assets	3,594,759	-	3,594,759
	<u>7,347,905</u>	<u>181,161</u>	<u>7,529,066</u>
OTHER REVENUE			
Interest income	6,250	-	6,250
Rental income	185,367	-	185,367
Other revenue	135,975	-	135,975
Unrealized loss on investments	(3,401)	-	(3,401)
Gain (loss) on sale of asset	9,561	-	9,561
	<u>333,752</u>	<u>-</u>	<u>333,752</u>
RECLASSIFICATIONS			
Net assets released from restrictions	205,867	(205,867)	-
	<u>7,887,524</u>	<u>(24,706)</u>	<u>7,862,818</u>
EXPENSES			
Program services	6,110,717	-	6,110,717
General and administrative	465,706	-	465,706
Fundraising	520,908	-	520,908
	<u>7,097,331</u>	<u>-</u>	<u>7,097,331</u>
	790,193	(24,706)	765,487
NET ASSETS AT BEGINNING OF YEAR	<u>6,269,158</u>	<u>356,718</u>	<u>6,625,876</u>
NET ASSETS AT END OF YEAR	<u>\$ 7,059,351</u>	<u>\$ 332,012</u>	<u>\$ 7,391,363</u>

MODESTO GOSPEL MISSION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2022

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
SUPPORT			
Contributions	\$ 2,783,790	\$ 8,500	\$ 2,792,290
Event revenue, net of expenses of \$42,824	72,304	-	72,304
Grants	-	150,000	150,000
Employee retention credit	-	-	-
Contributed nonfinancial assets	<u>4,150,324</u>	<u>-</u>	<u>4,150,324</u>
 Total support	 <u>7,006,418</u>	 <u>158,500</u>	 <u>7,164,918</u>
 OTHER REVENUE			
Interest income	8,480	-	8,480
Rental income	205,982	-	205,982
Other revenue	79,736	-	79,736
Unrealized loss on investments	(4,077)	-	(4,077)
Gain (loss) on sale of asset	<u>(1,407)</u>	<u>-</u>	<u>(1,407)</u>
 Total other revenue	 <u>288,714</u>	 <u>-</u>	 <u>288,714</u>
 RECLASSIFICATIONS			
Net assets released from restrictions	<u>301,232</u>	<u>(301,232)</u>	<u>-</u>
 Total support, other revenue, and reclassifications	 <u>7,596,364</u>	 <u>(142,732)</u>	 <u>7,453,632</u>
 EXPENSES			
Program services	6,190,150	-	6,190,150
General and administrative	394,733	-	394,733
Fundraising	<u>415,919</u>	<u>-</u>	<u>415,919</u>
 Total expenses	 <u>7,000,802</u>	 <u>-</u>	 <u>7,000,802</u>
 Total change in net assets	 595,562	 (142,732)	 452,830
 NET ASSETS AT BEGINNING OF YEAR	 <u>5,673,596</u>	 <u>499,450</u>	 <u>6,173,046</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 6,269,158</u>	 <u>\$ 356,718</u>	 <u>\$ 6,625,876</u>

MODESTO GOSPEL MISSION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023

		Supporting Services		
	Program Services	General and Administrative	Fund Raising	Total Expenses
Payroll	\$ 1,256,463	\$ 251,850	\$ 222,423	\$ 1,730,736
Payroll taxes	88,670	17,325	16,474	122,469
Employee benefits	50,812	12,648	18,196	81,656
Total payroll and related expenses	1,395,945	281,823	257,093	1,934,861
Advertising and development	16,420	2,304	111,273	129,997
Bad debt	-	30,000	-	30,000
Bank and merchant charges	184	1,709	1	1,894
Clinic	-	-	-	-
Clothing	2,281,549	-	-	2,281,549
Depreciation	233,198	9,401	-	242,599
Dues and subscriptions	2,962	4,871	24,515	32,348
Food	1,034,010	206	1,752	1,035,968
Gas and mileage	38,633	-	418	39,051
Insurance	161,216	12,815	5,974	180,005
Interest	-	11,520	-	11,520
Lease	62,956	2,268	8,213	73,437
Miscellaneous	13,667	1,443	7,170	22,280
Professional fees	5,357	61,898	2,499	69,754
Program	16,633	-	24,518	41,151
Repairs and maintenance	105,725	6,978	8,248	120,951
Supplies	514,630	6,062	50,332	571,024
Taxes	17,963	1,569	-	19,532
Training and travel	5,488	1,328	2,735	9,551
Utilities	204,181	29,511	16,167	249,859
TOTAL EXPENSES	\$ 6,110,717	\$ 465,706	\$ 520,908	\$ 7,097,331

MODESTO GOSPEL MISSION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	Program	Supporting Services		Total
	<u>Services</u>	<u>General and</u>	<u>Fund</u>	<u>Expenses</u>
		<u>Administrative</u>	<u>Raising</u>	
Payroll	\$1,095,094	\$208,224	\$178,541	\$1,481,859
Payroll taxes	79,257	13,700	13,452	106,409
Employee benefits	65,583	12,379	15,196	93,158
Total payroll and related expenses	1,239,934	234,303	207,189	1,681,426
Advertising and development	5,528	1,559	81,319	88,406
Bad debt	-	-	-	-
Bank and merchant charges	86	1,407	65	1,558
Clinic	-	-	-	-
Clothing	2,567,194	-	-	2,567,194
Depreciation	201,418	8,277	-	209,695
Dues and subscriptions	1,636	4,573	23,823	30,032
Food	1,079,979	287	303	1,080,569
Gas and mileage	31,532	-	110	31,642
Insurance	137,913	12,532	5,540	155,985
Interest	-	11,539	-	11,539
Lease	100,878	2,169	3,167	106,214
Miscellaneous	9,721	6,363	5,599	21,683
Professional fees	21,440	50,037	6,613	78,090
Program	5,869	-	17,631	23,500
Repairs and maintenance	78,183	4,214	5,595	87,992
Supplies	492,956	9,601	46,000	548,557
Taxes	12,891	1,601	-	14,492
Training and travel	15,076	4,140	3,956	23,172
Utilities	187,916	42,131	9,009	239,056
TOTAL EXPENSES	\$ 6,190,150	\$ 394,733	\$ 415,919	\$ 7,000,802

MODESTO GOSPEL MISSION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 765,487	\$ 452,830
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:		
Bad debt	30,000	-
Donated inventory	111,068	(67,010)
Donated investments	-	(22,573)
Unrealized loss on certificates of deposit and investments	3,401	4,077
Depreciation	242,599	209,695
(Gain) loss on sale of asset	(9,561)	1,407
Reduction in the carrying amount of operating right-of-use assets	33,904	-
(Increase) decrease in operating assets:		
Grant receivable	(23,717)	(1,556)
Other receivables	(1,556)	(64)
Employee retention credit receivable	(623,878)	-
Prepays	(2,996)	1,447
Promises to give	2,000	2,000
Increase (decrease) in operating liabilities:		
Accounts payable	40,827	(88,226)
Accrued payroll and payroll taxes	(12,912)	2,891
Unearned revenue	12,700	(14,000)
Accrued vacation	13,601	(8,957)
Rent deposits	14,702	5,633
Operating lease liabilities	(33,945)	-
Net cash provided by operating activities	<u>561,724</u>	<u>477,594</u>
INVESTING ACTIVITIES		
Proceeds from sale of marketable securities	230,000	-
Proceeds from sale of property, plant, and equipment	9,561	-
Proceeds from note receivable	120,000	-
Purchase of certificates of deposit	(875,000)	-
Purchase of marketable securities	(875,000)	-
Purchases of property, plant, and equipment	(287,615)	(603,730)
Net cash consumed by investing activities	<u>(1,678,054)</u>	<u>(603,730)</u>
FINANCING		
Payments made on note payable	(6,151)	(6,132)
Net cash consumed by financing activities	<u>(6,151)</u>	<u>(6,132)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,122,481)	(132,268)
Cash and cash equivalents at beginning of year	<u>1,748,348</u>	<u>1,880,616</u>
Cash and cash equivalents at end of year	<u><u>\$ 625,867</u></u>	<u><u>\$ 1,748,348</u></u>

SUPPLEMENTAL CASH FLOW INFORMATION (Note 13)

NOTES TO FINANCIAL STATEMENTS

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 1 Summary of Significant Accounting Policies

Nature of Organization The Modesto Gospel Mission (“the Organization”) is a non-profit, nondenominational Christian organization that has been serving the hungry and the homeless of Stanislaus County since 1948. John Haine, Modesto Gospel Mission’s founder saw a need and addressed it by simply helping the homeless on the streets. Inspired by this example, others came to lend a hand, and with help of individuals, churches, businesses, and volunteers, the outreach grew. In 1984 the Modesto Gospel Mission moved to its current location on Yosemite Boulevard in the airport neighborhood. A major expansion and renovation was completed in 1997, with the Mission campus now encompassing two city blocks. During the prior year, the Organization created a new social enterprise, Volente Coffee Roasters (Volente). This social enterprise will roast and sell whole coffee beans to individuals, churches, and local businesses. This enterprise will raise funds for their programs while impacting the men and women in their New Life Program (NLP) to develop the skills needed for stable full-time employment with living wages. All activity for Volente has been included in these financial statements.

Basis of Accounting and Presentation The Organization’s financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- a) Net assets without donor restrictions - net assets that are not subject to donor imposed stipulations.
- b) Net assets with donor restrictions - net assets subject to donor imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. When a restriction is satisfied or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Adoption of New Accounting Standard In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases in the statement of financial position. Additionally, in July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842) – Targeted Improvements*, which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements. The Organization adopted ASU 2016-02 and its related amendments as of July 1, 2022, which resulted in the recognition of operating right-of-use assets and operating lease liabilities totaling \$77,443. The Organization elected to adopt the transition relief provisions from ASU 2018-11 and recorded the impact of adoption as of July 1, 2022, without restating any prior-year amounts or disclosures. In addition, the Organization elected various practical expedients that allows the Organization not to reassess at adoption a) expired or existing contracts to determine whether they are or contain a lease, b) the lease classification of any existing leases, or c) initial direct costs for existing leases. All leases are recorded on the statement of financial position except for leases with an initial term less than 12 months for which the Organization made the short-term lease election. The Organization is also a lessor to operating leases and therefore, the impact was not considered to be material to the financial statements.

Cash and Cash Equivalents The Organization considers cash held in interest and noninterest bearing accounts and money market funds to be cash and cash equivalents.

Certificates of Deposit The Organization has various certificates of deposit with original maturities greater than three months.

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 1 Summary of Significant Accounting Policies (Continued)

Grant Receivable The Organization received an amount from an agency to provide funding for one of its offered programs. The amount is classified as a net asset with donor restrictions. No allowance for an uncollectible portion of the grant has been recorded as management believes the entire amount will be utilized for its stated purpose.

Employee Retention Credit The Employee Retention Credit (ERC) under the Coronavirus Aid, Relief, and Economic Security Act (CARES) was established to encourage businesses to keep employees on their payroll as the result of coronavirus (COVID-19). A business can qualify for the ERC if there was a significant decline in gross receipts when comparing each quarter for calendar year 2021 or 2020 to calendar year 2019. In addition, a business can qualify using the alternative method per Section 2301(C)(2)(B) of the CARES Act. The credit is 70% (or 50% for the 2020 calendar year) of up to \$10,000 in qualified wages paid by an eligible employer whose business has been financially impacted by COVID-19. This ERC applies to qualified wages paid between March 12, 2020 and September 30, 2021. During the year ended June 30, 2023, the Organization qualified for the ERC and submitted for a refund in the amount of \$1,001,272. \$623,878 of the amount is included as employee retention credit receivable on the statement of financial position as of June 30, 2023 and \$1,001,272 is included in employee retention credit revenue on the statement of activities and changes in net assets for the year ended June 30, 2023.

Inventory The Organization accepts contributions of clothing, food, and household items to be used in activities in running the Organization. These contributed items are recorded at their fair value at the date of receipt. The Organization also capitalizes costs associated with the manufacture of its Volente coffee bean operations. The inventory associated with Volente is carried at the lower of cost or net realizable value.

Marketable Securities As required by the *Accounting for Certain Investments Held by Not-for-Profit Organizations* topic of the FASB Accounting Standards Codification (ASC), the Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair market value in the statement of financial position. Realized and unrealized gains and losses are recognized in the statement of activities and changes in net assets. The investments consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
Mutual funds	\$320,227	\$ 18,496
Corporate bonds	<u>342,096</u>	<u>-</u>
	<u>\$662,323</u>	<u>\$ 18,496</u>

Promises to Give The Organization uses the allowance method for determining the uncollectible portion of promises to give. No allowance for uncollectible promises to give has been recorded as management believes all amounts outstanding estimating future cash flows and discounted using the carrying amount to present value using the Daily Treasury yield discount rate. The fair value of promises to give is measured on a nonrecurring basis by end (Level 2 inputs). The unamortized present value discount on the promises to give balance is not considered material for financial statement purposes. All promises to give were received in full by June 30, 2023.

Property, Plant, and Equipment Property, plant, and equipment purchases are recorded at cost and donated property and equipment are recorded at estimated fair market value on the date contributed to the Organization. The cost of property, plant, and equipment purchases in excess of \$1,000 are capitalized. Maintenance and repairs that do not extend the useful life of the respective assets are expensed as incurred. Depreciation is provided on the straight-line methods over the estimated useful lives of the assets of three to forty-five years.

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 1 Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets On an ongoing basis, the Organization reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Organization recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of June 30, 2023 and 2022, management believes that no impairments exist.

Unearned Revenue Unearned revenue represents advance payments for future special events.

Rent Deposits The Organization provides a New Life Program to assist participants in attaining sobriety. Once a participant graduates from the program, participants have the opportunity to rent living space from the Organization. During their rent tenure, the participant can earn up to a 60% rent credit against their monthly payment for the first six months and a maximum of \$1,800, which is refunded to the participant upon moving out. Refundable rent deposits with third-parties are also included in this balance. As of June 30, 2023 and 2022, refundable rent credits amounted to \$18,988 and \$14,033, respectively, and is included in accrued expenses.

Revenue Recognition and Contributions The Organization recognizes contributions as income when received or when money has been pledged to the Organization. Accounting principles generally accepted in the United States of America require non-profit organizations to record promises to give during the period in which the promise is made. Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Noncash gifts are reported as support at the estimated fair market value on the date of the gift. Goods given to the Organization that do not have an objective basis for valuation are not recorded. Revenue is primarily derived from contributions of cash. The Organization records contributions received as net assets without donor restrictions or net assets with donor restrictions depending on the existence or nature of any donor restriction.

The Organization's grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. In accordance with FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, contributions received by the Organization are not considered an exchange transaction as no commensurate value is exchanged. The Organization receives unconditional contributions without donor restrictions and unconditional contributions with donor restrictions. The Organization may also receive contributions with donor restrictions which are considered conditional contributions as there is a right of return and a barrier to overcome in order to recognize revenue. Conditional contributions are not recognized until the conditions on which they depend on have been met. The Organization recognized unconditional contributions without donor restrictions of \$2,662,641 and unconditional contributions with donor restrictions of \$56,161 for the year ended June 30, 2023. The Organization recognized unconditional contributions without donor restrictions of \$2,783,790 and unconditional contributions with donor restrictions of \$8,500 for the year ended June 30, 2022. The Organization received conditional contributions and grants with donor restrictions of \$125,000 and \$150,000 for the years ended June 30, 2023 and 2022, respectively. The Organization recognizes rental income in accordance with ASC Topic 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- 1) Identify the contract with a customer
- 2) Identify the performance obligations in the contract
- 3) Determine the transaction price
- 4) Allocate the transaction price to the performance obligations in the contract
- 5) Recognize revenue when or as performance obligations are satisfied

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 1 Summary of Significant Accounting Policies (Continued)

Revenue Recognition and Contributions (Continued) Rental income consists of rentals of residential and non-residential property. The property rentals are marketed and leased to unrelated parties as well as participants whom graduated from the New Life program that are in transition. The rentals depend upon the economic and real estate conditions in these markets and are exposed to economic, tax, and other competitive factors specific to these urban centers. Base rent and operating expense reimbursement represent income from leases and are recognized in accordance with ASC 842, Leases. There were no other revenues to be recognized in accordance with ASC 606.

The Organization recognizes rental income resulting from tenant leases over the non-cancelable term of the related leases on a straight-line basis. The Organization considers any renewal options in determining the lease term. To the extent a lease includes a tenant option to renew or extend the duration of the lease at a fixed or determinable rental rate, the Organization evaluates whether that option represents a bargain renewal option by analyzing whether there is reasonable assurance at lease inception that the tenant will exercise the option because the rental rate is sufficiently lower than the expected rental rate for equivalent property under similar terms and conditions at the exercise date. The Organization commences rental income recognition when the tenant takes possession of the leased space and the leased space is substantially ready for its intended use. Income resulting from tenant leases that provide for the recovery of all or a portion of the operating expenses and real estate taxes of the common areas of the Organization's properties generally is recognized in the same period as the related expenses are incurred. Payment arrangements for customers are paid at invoice price. Amounts received by the Organization are applied to lessee balances by outstanding invoice or to the oldest invoice if not specifically noted. Payments are generally due from customers at the beginning of the month. The Organization does not charge interest on past due balances. The Organization does not grant any variable consideration to its lessee's, such as rebates, allowances, and returns that would generally decrease the transaction price which reduces revenue.

The Organization has elected the practical expedient that permits an entity not to recognize a significant financing component if the time between the transfer of the service and payment is one year or less. The Organization does not enter into contracts in which the period between payment by the lessee and the transfer of the promised services to the lessee is greater than 12 months.

The Organization records a receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. The Organization does not recognize revenue in advance of the right to invoice and therefore has not recorded a contract asset. If revenue has not yet been recognized, a contract liability (deferred income) is also recorded.

Contribution of Nonfinancial Assets Donations of services are recognized as contributions in accordance with ASC Section 958-605 *Not-for-Profit Entities, Revenue Recognition*, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased if not provided by donation.

Beneficial Interest in Charitable Trust The Organization is the primary beneficiary in a charitable trust. The assets in the trust were valued at \$1,866,032 and \$1,941,263 as of June 30, 2023 and 2022, respectively. The allocation of the income to the beneficiary is at the Trustee's discretion. For both years ended June 30, 2023 and 2022, the income received by the Organization from the trust was \$120,000.

Advertising Advertising is expensed as incurred. Total advertising expense for the years ended June 30, 2023 and 2022 was \$95,623 and \$69,127, respectively.

MODESTO GOSPEL MISSION
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Note 1 Summary of Significant Accounting Policies (Continued)

Income Taxes The Organization is a not for profit corporation and is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Management has evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for the tax years ending June 30, 2019 and before.

Functional Allocation of Expenses The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and changes in net assets and detailed in the statements of functional expenses. The majority of expenses were directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses have been allocated among the programs and supporting services benefited based on percentage of time spent by each employee on the activity or other basis determined by the Organization's management.

Fair Value of Financial Instruments The carrying amounts of financial instruments, including cash, receivables, accounts payable, accrued expenses, and current maturities of long-term obligations, approximate fair value.

Concentration of Credit Risk The Organization maintains cash balances at various financial institutions, which at times may exceed federally insured limits. At June 30, 2023, there was \$354,477 of uninsured cash and cash equivalents. The certificates of deposit held with an investment broker are not federally guaranteed or FDIC insured. As a result, the Organization had uninsured certificates of deposit of \$872,772 at June 30, 2023.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 2, 2023, the date the financial statements were available to be issued.

Note 2 Liquidity and Availability

As part of the liquidity management plan, the Organization invests cash in excess of daily requirements in short-term investments, including money market accounts, certificates of deposit, and marketable securities. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2023:

Cash and cash equivalents	\$ 625,867
Certificates of deposit	872,772
Other receivables	123,779
Employee retention credit receivable	623,878
Marketable securities	<u>662,323</u>
	2,908,619
Less net assets with donor restrictions	<u>332,012</u>
	<u>\$2,576,607</u>

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 3 Inventory

Inventory consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
Clothing	\$ 18,602	\$ 47,806
Food	56,988	89,010
Medical supplies	12,657	17,351
Finished goods	4,335	-
Miscellaneous	<u>72,796</u>	<u>122,279</u>
	<u>\$ 165,378</u>	<u>\$ 276,446</u>

Note 4 Property, Plant, and Equipment

Property, plant, and equipment at June 30 consists of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 1,076,567	\$ 1,076,567
Building and improvements	6,398,123	6,231,609
Furniture and fixtures	94,311	67,867
Automobiles	316,505	307,444
Machinery and equipment	483,940	455,970
Construction in process	<u>3,555</u>	<u>7,500</u>
	8,373,001	8,146,957
Less accumulated depreciation	<u>3,685,754</u>	<u>3,504,726</u>
	<u>\$ 4,687,247</u>	<u>\$ 4,642,231</u>

Note 5 Note Receivable

The Organization had a note receivable from Soldiers of the Cross that was paid in full during the year ended June 30, 2023. As part of settlement of the balance, the Organization agreed to forgive \$30,000 of the balance in exchange for early retirement of the note balance. The note was fixed at the rate of 5.0%. The balance of the note was \$150,000 at June 30, 2022.

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
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Note 6 Note Payable

The Organization has a note with Oak Valley Community Bank with an outstanding balance of \$224,330 and \$230,481 as of June 30, 2023 and 2022, respectively. The note is secured by deed of trust and is due in monthly installments of \$1,473 including fixed interest at 4.99%. During fiscal year ending June 30, 2024, the interest is then adjustable to the prevailing 5-year treasury note rate plus 2.65%. The note matures November 1, 2043. The following are maturities of the note for each of the next five years and in the aggregate for the years ending June 30:

2024	\$ 6,628
2025	6,967
2026	7,322
2027	7,696
2028	8,089
Thereafter	<u>187,628</u>
	<u>\$ 224,330</u>

Note 7 Contributed Nonfinancial Assets

Contributed nonfinancial assets include clothing, food, medical supplies, rent, and miscellaneous supplies provided by various professionals and companies in Stanislaus County which is summarized as follows for the years ended June 30:

	<u>2023</u>	<u>2022</u>	<u>Utilization in Programs/ Activities</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques and Inputs</u>
Clothing	\$2,237,631	\$2,634,204	Program Services	No associated donor restrictions	Organization estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Investments	-	22,573	General and Administrative	No associated donor restrictions	Organization estimated the fair value based on similar assets at the daily closing price as reported by the fund.
Food	966,465	1,053,649	Program Services	No associated donor restrictions	Organization estimated the fair value based on estimates of wholesale values that would be received for selling similar products in the United States.
Rent	24,015	27,275	Program Services	No associated donor restrictions	Organization estimated the fair value based on similar properties rented in the same approximate location.

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Note 7 Contributed Nonfinancial Assets (Continued)

	<u>2023</u>	<u>2022</u>	Utilization in Programs/ <u>Activities</u>	Donor <u>Restrictions</u>	<u>Valuation Techniques and Inputs</u>
				No associated donor restrictions	Organization estimated the fair value based on estimates of wholesale values that would be received for selling similar products in the United States.
Supplies	<u>\$ 366,648</u>	<u>\$ 412,623</u>	Program Services		
	<u>\$3,594,759</u>	<u>\$4,150,324</u>			

Note 8 Net Assets With Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
Oak Valley Community Bank	\$ -	\$ 2,000
Grants	-	43,826
Women and Children's Building	332,012	307,012
Hymn Books	<u>-</u>	<u>3,880</u>
	<u>\$ 332,012</u>	<u>\$ 356,718</u>

Note 9 Reclassifications of Net Assets With Donor Restrictions

Reclassifications on the statements of activities and changes in net assets represent net assets with donor restrictions which have been utilized in accordance with the donor restrictions. Donor restriction reclassifications for the years ended June 30 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Oak Valley Community Bank Grant	\$ 2,000	\$ 2,000
Grants	168,826	287,112
Grover Grant Freedom Grant	-	3,000
Men's Bathroom	-	3,000
Hymn Books	3,880	1,120
Youth Center	-	5,000
New A/C Unit	12,161	-
Women's/Children's Ministry	16,500	-
Christmas Campaign 2022	1,000	-
Men's Unit – Flooring	<u>1,500</u>	<u>-</u>
	<u>\$ 205,867</u>	<u>\$ 301,232</u>

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
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Note 10 Leases

The Organization leases home apartments to graduating participants from the New Life Program, who are currently in transition or graduated from program. Monthly rents range from \$275 to \$800 plus insurance and utilities and expire at various times throughout the year. These leases are usually six months in duration and then convert into a month-to-month lease. Rent income for the years ended June 30, 2023 and 2022 was \$122,342 and \$144,619, respectively.

The Organization has lease agreements to lease building space to unrelated parties with expiration dates ranging from February 2026 to August 2029. Rent income for the years ended June 30, 2023 and 2022 was \$63,025 and \$61,363, respectively.

The cost and accumulated depreciation for assets held for lease with lease terms greater than one year was \$721,282 and \$139,434 at June 30, 2023, respectively. The cost and accumulated depreciation for assets held for lease with lease terms greater than one year was \$721,282 and \$112,066 at June 30, 2022, respectively.

As a lessee, the Organization leases buildings and office equipment under operating leases expiring at various dates through August 2027. The leases include fixed rental payments. For the year ended June 30, 2023, the Organization recognized lease expense associated with its leases as follows:

Operating lease cost	\$ 33,904
Short-term lease cost	<u>15,518</u>
Net lease cost	<u>\$ 49,422</u>

During the year ended June 30, 2023, the Organization had \$36,128 of cash payments associated with operating leases. The future payments due under operating leases as of June 30, 2023 is as follows:

2024	\$ 36,377
2025	18,367
2026	5,736
2027	4,308
2028	<u>718</u>
	65,506
Less effects of discounting	<u>2,274</u>
	<u>\$ 63,232</u>

As of June 30, 2023, the weighted average remaining lease term for all leases is 2.22 years. Since the Organization generally does not have access to the rate implicit in the lease, the Organization utilizes their incremental borrowing rate as the discount rate. The weighted average discount rate associated with leases as of June 30, 2023 is 3.04%.

The Organization leases home apartments from an unrelated party. Donated lease expense for the years ended June 30, 2023 and 2022 was \$24,015 and \$27,275, respectively, and is included in lease expense on the statements of functional expenses. The lease with the unrelated party was extended through January 2025.

MODESTO GOSPEL MISSION
NOTES TO FINANCIAL STATEMENTS
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Note 10 Leases (Continued)

Lease expense under FASB ASC 840 (pre-adoption of the new standards) for operating leases totaled \$63,599 for the year ended June 30, 2022. The aggregate minimum lease payments under those operating leases as of June 30, 2023 was as follows:

2024	\$ 33,599
2025	2,664
2026	1,559
2027	<u>1,429</u>
	<u>\$ 39,251</u>

Note 11 Defined Contribution Plan

The Organization has a defined contribution plan, which covers substantially all employees who have met certain eligibility requirements. The plan allows employees to defer a percentage of their compensation up to statutory maximums. The plan allows for discretionary employer matching and non-elective contributions. Employees are fully vested in their salary deferral contributions, and in their discretionary employer matching and non-elective contributions upon meeting certain eligibility requirements. There were no employer contributions to the plan for the years ended June 30, 2023 and 2022.

Note 12 Fair Value Measurements

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

The three levels of the fair value hierarchy are described below:

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

Level 2 Inputs to the valuation methodology include:

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

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

MODESTO GOSPEL MISSION
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Note 12 Fair Value Measurements (Continued)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

There have been no changes in the methodologies used at June 30, 2023 and 2022. The following is a description of the valuation methodologies used for assets measured at fair value.

Money market funds: Valued at the net asset value (NAV) of shares held by the Organization at year end.

Certificates of deposit: Valued at amortized cost, which approximate fair value.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Corporate bonds: Valued at the closing price reported on the active market on which the individual securities are traded.

Promises to give: Valued at fair value on a nonrecurring basis by estimating future cash flows and discounted using the carrying amount to present value using the Daily Treasury yield discount rate.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured on a nonrecurring basis as of and for the years ended:

	June 30, 2023			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 54,128	\$ -	\$ -	\$ 54,128
Certificates of deposit	872,772			872,772
Mutual funds	320,227	-	-	320,227
Corporate bonds	<u>342,096</u>	<u>-</u>	<u>-</u>	<u>342,096</u>
Total assets in the fair value hierarchy	<u>\$1,589,223</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,589,223</u>

	June 30, 2022			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 253,237	\$ -	\$ -	\$ 253,237
Mutual funds	18,496	-	-	18,496
Promises to give	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total assets in the fair value hierarchy	<u>\$ 271,733</u>	<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ 273,744</u>

MODESTO GOSPEL MISSION
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Note 13 Supplemental Cash Flow Information

	<u>2023</u>	<u>2022</u>
Cash paid for interest	\$ 11,520	11,539
Noncash transactions:		
Right-of-use assets obtained in exchange for operating lease liabilities at implementation	77,443	-
Right-of-use assets obtained in exchange for operating lease liabilities	19,734	-

Note 14 Subsequent Events

Subsequent to year end, the Organization purchased a building for \$720,000, of which approximately half of the purchase was financed.