NOVOGRADAC & COMPANY LLP®

San Diego Rescue Mission and Subsidiaries

Consolidated Financial Statements with Report of Independent Auditors
September 30, 2022 and 2021

NOVOGRADAC & COMPANY LLP®

Report of Independent Auditors

To the Board of Directors of
San Diego Rescue Mission and Subsidiaries:

Opinion

We have audited the accompanying consolidated financial statements of San Diego Rescue Mission and Subsidiaries, which comprise the consolidated statement of financial position as of September 30, 2022, and the related 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 San Diego Rescue Mission and Subsidiaries as of September 30, 2022, and the changes in their net assets and their 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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of San Diego Rescue Mission and Subsidiaries 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.

Prior Period Financial Statements

The financial statements of San Diego Rescue Mission as of September 30, 2021, were audited by other auditors whose report dated December 20, 2021, expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note 2, the consolidated financial statements of San Diego Rescue Mission and Subsidiaries include the consolidation of San Diego Rescue Mission Foundation as of April 14, 2022. The consolidated financial statements do not include San Diego Rescue Mission Foundation prior to April 14, 2022.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 San Diego Rescue Mission and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 an 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.
- 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 San Diego Rescue Mission and Subsidiaries' 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 San Diego Rescue Mission and Subsidiaries' 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

San Diego Rescue Mission's 2020 financial statements were audited by other auditors which expressed an unmodified audit opinion on those financial statements in their report dated December 20, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Changes in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, San Diego Rescue Mission and Subsidiaries adopted changes in ASU 2020-07 related to presentation and disclosure of contributed nonfinancial assets. Our opinion is not modified with respect to those matters.

Novogradac & Company LLP

Long Beach, California
January 17, 2023

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2022 AND 2021

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,891,756	$ 6,506,229
Investments	5,171,500	2,763,954
Current portion of pledges receivable, net	1,632,736	-
Accounts receivable	182,478	-
Prepaid expenses	494,261	390,251
Other current assets	1,851	5,091
Inventory, net	104,250	41,655
Total current assets	11,478,832	9,707,180
Property and equipment, net	26,323,941	17,369,767
Other assets		
Scholarship fund	126,517	131,313
Construction in progress	353,241	460,989
Notes receivable	9,347,960	2,300,000
Pledges receivable, net	1,751,837	-
Other long-term assets	42,680	63,487
Total other assets	11,622,235	2,955,789
Total assets	$ 49,425,008	$ 30,032,736
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	$ 678,553	$ 552,258
Compensated absences	198,523	194,470
Deferred revenue	61,842	36,657
Deposits	20,510	5,480
Current portion of capital lease obligations	54,968	57,123
Current portion of notes payable, net	464,345	-
Total current liabilities	1,478,741	845,988
Long-term liabilities		
Notes payable, net	20,338,367	6,988,646
Interest payable	1,455,088	1,353,100
Deferred rent	91,363	101,023
Capital lease obligations	84,479	131,642
Total long-term liabilities	21,969,297	8,574,411
Total liabilities	23,448,038	9,420,399
NET ASSETS		
Without donor restrictions	22,362,067	20,351,345
With donor restrictions	3,614,903	260,992
Total net assets	25,976,970	20,612,337
Total liabilities and net assets	$ 49,425,008	$ 30,032,736

see accompanying notes

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
NET ASSETS				
REVENUE AND OTHER SUPPORT				
Contributions	$ 13,609,080	$ 3,650,445	$ 17,259,525	$ 10,584,879
Donated food	7,782,648	-	7,782,648	9,264,017
Grants and contracts	608,031	137,900	745,931	636,749
Donated material	488,956	-	488,956	775,769
Rental income	270,692	-	270,692	209,431
Program fees	237,789	-	237,789	22,237
Interest income	159,195	-	159,195	41,464
Thrift stores	53,384	-	53,384	707,307
Vehicle donation sales	38,150	-	38,150	5,600
Gain on sales of fixed assets, net	25,274	-	25,274	1,876,495
Other	1,250	-	1,250	5,953
Paycheck Protections Program loan proceeds	-	-	-	858,594
Net assets released from restrictions				
By specific purpose	434,434	(434,434)	-	-
Total revenue and other support	23,708,883	3,353,911	27,062,794	24,988,495
EXPENDITURES				
Program services				
Men, women, and children's services	11,288,756	-	11,288,756	10,766,966
Partners for Hunger Relief	2,985,673	-	2,985,673	3,290,004
Bread of Life/Oceanside Navigation Center	1,222,755	-	1,222,755	1,843,301
Church Partnership	522,772	-	522,772	327,557
Thrift store ministry	221,570	-	221,570	1,246,873
National City Navigation Center	103,668	-	103,668	-
New Market Tax Credit	99,104	-	99,104	-
Special events	41,438	-	41,438	57,504
Total program service	16,485,736	-	16,485,736	17,532,205
Management and general	1,284,020	-	1,284,020	1,045,160
Fundraising	3,294,834	-	3,294,834	2,593,422
Total expenditures	21,064,590	-	21,064,590	21,170,787
Change in net assets from operations	2,644,293	3,353,911	5,998,204	3,817,708
NONOPERATING ACTIVITIES				
Net assets acquired in excess of net liabilities assumed in acquisition	-	-	-	264,257
Investment interest and dividends	26,830	-	26,830	-
Realized investment gain (loss)	(123,545)	-	(123,545)	17,695
Unrealized investment gain (loss)	(536,856)	-	(536,856)	268,764
Total nonoperating activities	(633,571)	-	(633,571)	550,716
CHANGE IN NET ASSETS	2,010,722	3,353,911	5,364,633	4,368,424
NET ASSETS AT BEGINNING OF YEAR	20,351,345	260,992	20,612,337	16,243,913
NET ASSETS AT END OF YEAR	$ 22,362,067	$ 3,614,903	$ 25,976,970	$ 20,612,337

see accompanying notes

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	2022				2021
EXPENDITURES	Program Services	Management and General	Fundraising	Total	Total
Salaries and wages	$ 3,185,928	$ 537,330	$ 860,022	$ 4,583,280	$ 3,835,542
Employee benefits	341,673	55,419	89,053	486,145	521,160
Payroll tax expense	263,800	31,232	62,677	357,709	305,685
Donated food and materials	8,180,018	14,496	14,496	8,209,010	10,083,724
Fundraising	47,417	-	1,855,839	1,903,256	1,647,270
Facilities allocated costs	1,569,388	61,474	61,474	1,692,336	1,335,155
Food services allocated costs	689,771	-	-	689,771	559,151
Depreciation and amortization	592,241	21,181	21,181	634,603	609,100
Outside services	115,340	298,387	20,401	434,128	266,985
Interest	391,759	8,811	8,811	409,381	255,042
Rent	331,748	-	-	331,748	342,430
Supplies	130,373	6,025	7,490	143,888	73,348
Distribution center allocated costs	121,654	4,765	4,765	131,184	692,781
Professional fees	-	108,934	16,525	125,459	78,251
Client services	114,370	-	-	114,370	35,912
Public relations	52,783	-	51,200	103,983	82,116
Other	4,154	67,473	28,869	100,496	101,483
Auto expense	99,052	-	-	99,052	62,038
Bank fees	2,270	24,405	67,366	94,041	38,229
Meal, travel, and entertainment	27,087	22,901	35,160	85,148	41,061
Security	83,842	-	-	83,842	10,168
Communications	16,070	8,931	35,931	60,932	28,652
Dues and subscriptions	26,578	10,891	12,135	49,604	20,294
Utilities	46,705	-	-	46,705	52,519
Postage	544	997	41,267	42,808	3,981
Repairs and maintenance	19,013	-	-	19,013	24,995
Permit/license	16,542	325	129	16,996	9,823
Equipment rental	8,659	-	-	8,659	10,525
Food	5,872	-	-	5,872	7,899
Loan fees	1,085	43	43	1,171	35,468
Total expenditures	$ 16,485,736	$ 1,284,020	$ 3,294,834	$ 21,064,590	$ 21,170,787

see accompanying notes

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 5,364,633	$ 4,104,167
Adjustments to reconcile change in net assets to		
net cash provided by operating activities:		
Assets acquired in excess of liabilities assumed in acquisition	-	264,257
Depreciation and Amortization	757,563	803,078
Gain on sale of thrift store/warehouse	-	(1,922,940)
Disposal of other property and equipment	-	234,395
Beneficial interest in charitable gift annuity	6,807	(6,332)
In-kind (distribution)/contribution of inventory, net	(62,595)	43,938
Net unrealized and realized loss (gain) on investments	521,911	(268,764)
Net unrealized and realized loss (gain) on scholarship fund	14,945	(17,514)
Transfer to investment account from operations	(2,776,937)	(1,000,000)
Termination of capital lease liability	-	(187,950)
Decrease (increase) in assets:		
Account receivable	(182,478)	33,210
Prepaid expenses	(104,010)	(35,627)
Pledges receivable, net	(3,384,573)	-
Other current assets	3,240	4,096
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	126,295	(69,514)
Compensated absences	4,053	13,311
Deferred revenue	25,185	7,557
Deposits	29,030	(13,670)
Interest payable	101,988	98,977
Deferred rent	(9,660)	(4,245)
Net cash provided by operating activities	435,397	2,080,430
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments	(162,169)	51,941
Investment in scholarship fund	(500)	-
Purchase of property and equipment	(9,596,858)	(611,696)
Increase in notes receivable	(7,047,960)	(2,300,000)
Proceeds from sale of thrift store/warehouse	-	2,718,990
Net cash (used in) provided by investing activities	(16,807,487)	(140,765)
CASH FLOWS FROM FINANCING ACTIVITIES		
Mortgage payoff	-	(4,458,312)
Proceeds from refinance of mortgage, net of loan fees	-	4,987,500
Proceeds from notes payable	14,110,000	-
Proceeds from PPP loan	-	(850,000)
Payment of debt issuance costs	(303,065)	-
Principal payments on capital lease obligation	(49,318)	(92,069)
Net cash provided by (used in) financing activities	13,757,617	(412,881)
Net change in cash and cash equivalents	(2,614,473)	1,526,784
Cash and cash equivalents at beginning of year	6,506,229	4,979,445
Cash and cash equivalents at end of year	$ 3,891,756	$ 6,506,229

see accompanying notes

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	2022	2021
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 300,503	$ 183,522
In-kind contributions:		
Stock	$ 126,347	$ 118,840
Supplemental disclosures of non-cash investing and financing activities		
Disposal of fixed assets	$ 26,279	$ -

see accompanying notes

1. Organization

The accompanying financial statements of the San Diego Rescue Mission and Subsidiaries (the "Organization" or the "Mission") include the accounts of the following entities:

San Diego Rescue Mission, Inc.
San Diego Rescue Mission, Inc. ("SDRM") is a Christian nonprofit public benefit organization classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) of the Internal Revenue Code of 1986. SDRM was organized in 1955 to care for the homeless and destitute men, women, and children of San Diego by providing shelter, food, clothing, medical care, education, counseling, rehabilitation, and spiritual guidance. SDRM operates a donation processing center dedicated to the rehabilitation of men and women in the workplace (see Notes 6 and 14). The following is a list of descriptions of SDRM's programs.

Men, Women, and Children's Services
The four programs within the Men, Women, and Children's Services are described as follows:

Mission Academy
The residential program is a holistic year long program. It serves single men, women, and single parents. Those in the program are referred to as students. It is structured around three semesters and five goals. Semester one is focused on wellness. Semester two is focused on job training and placement and semester three is designed for the student to find housing and prepare to transition to a life of stability. The five goals are to encounter God, experience recovery, engage in job training, establish housing, and enlist a support network. Upon graduation they are invited to participate in an Alumni program where they are invited to volunteer and serve in the community.

Nueva Vida Haven
Nueva Vida Haven provides emergency shelter services for homeless families. Each night, up to 60 women and children use Nueva Vida Haven facility for a warm, safe place to sleep, a place to shower and obtain clean clothes and a nutritious breakfast. Residents also have access to therapists and social workers to help them to determine the best course of action for life improvement. This often includes entry into the Organization's Mission Academy.

Therapy Services
Therapeutic services are offered to people served in all the Mission's programs. Treatment is provided by licensed therapists, or by interns and trainees under their supervision.

Children's Center
The Children's Center is a program of the Mission that was formed in fiscal year 2014 and provides licensed childcare to children ages 2-5 for the children of Nueva Vida Haven and Women's and Children's Center of San Diego Rescue Mission. The center provides a child-initiated, play-based curriculum that includes inside and outside activities, teacher-directed and child-directed activities, and restful and active times each weekday.

Church Partnership
The Church Partnerships department engages with hundreds of churches to carry out a vision to unite the local Church around healing our region from homelessness. Churches give financially, hold donation drives, lead chapel services, and volunteer both on and off-site. The Church Partnerships department has grown since its inception in 2019 to include oversight of our volunteer program, Chapel services, Chaplaincy programs, holiday outreach meals, Walk with Me outreach initiative and our new Mobile Shower Ministry.

1. Organization (continued)

Partners for Hunger Relief
Partners for Hunger Relief is a program of SDRM which was formed to bolster food recovery efforts in San Diego and serve a broad base of agencies and people. SDRM has developed a successful system of locating, recovering, and distributing donated food. This food is not only used by SDRM program member, but a large percentage of this food is shared at no cost with the network of nonprofit feeding programs and food pantries throughout San Diego County.

Bread of Life
For 20 years, Bread of Life has serviced Oceanside, California by meeting tangible, short-term needs and providing a welcoming, loving community for those in need of hope and compassion. Bread of Life started with a few volunteers distributing bagged meals and clothing in parks and on the streets and has become a multifaceted resource for those facing hardship. Now, the program operates with over 60 volunteers weekly to get people off the streets permanently. Each unique service provided an opportunity for guests to encounter the love of God and get the help they need. During 2020, SDRM acquired Bread of Life to serve the most vulnerable population in the city of Oceanside, to serve the hurting, hungry, and poor with the love and grace of Jesus Christ. In April 2022, Bread of Life was relocated and restructured to be part of the Oceanside Navigation Center.

Thrift Stores
SDRM operated thrift stores located in North Park (sold in June 2021, see Note 6), City Heights (closed in March 2020), and the Sports Arena areas. The thrift stores offered “gently” used clothing, sports equipment, furniture, and other household items for sale. All items in the thrift stores had been donated by people and businesses from throughout the San Diego community. The Mission’s warehouse in National City that receives and distributes goods for the thrift stores began operations effective in November 2020. The Rescue Mission discontinued its thrift store program effective October 1, 2021.

North County Shelter Services
In July 2022, SDRM provided a reimbursable sheltering service for the City of Oceanside. SDRM managed 30 rooms at a city-rented facility. Rooms were provided via referrals from the Oceanside Homeless Outreach Team, the Oceanside Housing Authority, and the County of San Diego. People were provided shelter to include showers, food, laundry, and access to hygiene and clothing. Case management was provided with a goal of identifying the next step for the person to end their homelessness to include admissions to Mission Academy.

San Diego Rescue Mission Foundation
San Diego Rescue Mission Foundation (the “Foundation”) was incorporated in 2022 as a supporting organization controlled by SDRM to facilitate New Market Tax Credit and to manage the Barbara Lee Scholarship Fund program.

2. Summary of significant accounting policies

Basis of accounting
The Organization prepares its consolidated financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

2. Summary of significant accounting policies (continued)

Basis of presentation
The Organization is required to report information regarding its financial position and activities according to the following net asset classifications:

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. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, which will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Principles of consolidation
The Organization's consolidated financial statements include SDRM and the accounts of its wholly-owned, controlled subsidiary, the Foundation.

All material intercompany balances and transactions have been eliminated.

Estimates
The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents
Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or fewer at the date of acquisition.

Concentration of credit risk
The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable
Management considers receivables to be fully collectible. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

2. Summary of significant accounting policies (continued)

Pledges receivable

Pledges receivable consist of various pledges made for the Organization's capital campaign. The Board of Directors of the Organization approved the capital campaign, the proceeds of which will be used to convert two buildings located in National City, California that will provide shelter and services for 160 people. Unconditional pledges to give are recorded as contributions when pledged, at the net present value of the amounts expected to be collected. Accounting principles generally accepted in the United States of America require that unconditional pledges to give that are expected to be received in future periods are discounted annually using the current interest rate the funds would earn.

Conditional promises to give are not included as support until the conditions are met.

Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual pledges. Balances that remain outstanding after management has used reasonable collection efforts are generally written off through a charge to the valuation allowance and a credit to pledges receivable. As of September 30, 2022, the balance of the allowance for doubtful accounts was $194,462.

Fair value measurements

The Organization applies the accounting provisions related to fair value measurements. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that reflect the Organization's own assumptions.

The following tables present the Organization's assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of September 30, 2022 and 2021:

September 30,	Level 1 2022	Level 1 2021
Investments in mutual funds	$4,309,485	$2,763,954
Money market funds	862,015	-
Barbara Lee Scholarship Fund	-	131,313

2. Summary of significant accounting policies (continued)

Investments
Investment purchases and sales are accounted for on a trade-date basis. Realized gains and losses are calculated based upon the underlying cost of individual lots. Interest income is recorded when earned and dividends are recorded on the ex-dividend date.

Investments are made according to the finance policy adopted by the Organization's Board of Directors. The guidelines provide for investment in equities, fixed income, and other securities with performance measured against appropriate indices. Outside advisors are utilized by the Organization for the purpose of providing investment and consulting advice.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Inventories
Inventories of in-kind contributions are valued at thrift store values based on published guidelines for donated goods.

Fixed assets and depreciation
Land, buildings, and equipment costing more than $5,000 and an expected life of three years or more are recorded at cost. Donations of land, buildings, and equipment are recorded as support at their estimated fair value in the statement of activities. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used acquire buildings and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Assets under construction are not depreciated until placed in service. Depreciation expense for the years ended September 30, 2022 and 2021 was $698,923 and $668,464, respectively. For the year ended September 30, 2022, depreciation expense was allocated on the accompanying statements of functional expenses as follows: Depreciation and amortization: $634,603; facilities allocated costs: $64,320. The useful lives of the assets are estimated as follows:

Building and improvements	5 – 40 years
Equipment	5 – 7 years
Furniture and fixture	5 – 7 years
Autos and truck	5 – 7 years
Software	5 years

2. Summary of significant accounting policies (continued)

Impairment of long-lived assets
The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flows expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There were no impairment losses recognized during 2022 and 2021.

Debt issuance costs
The Organization presents debt issuance costs as an offset against debt on its consolidated financial statements. Debt issuance costs are amortized to interest expense using the effective interest method over the life of the associated loan.

Deferred rent
Rent expense for operating leases, which have fixed escalating rental over the life of the lease and free rent periods, is recorded on a straight-line basis over the initial lease term. The difference between rent expense and rent paid is recorded as deferred rent and is classified as long-term at September 30, 2022 and 2021 as a liability. Management intends to terminate the lease on 111 Elm Street in April 2023.

Revenue recognition
When monies or other assets are received, the Organization classifies the transaction as either a contribution (i.e., a nonreciprocal transaction) or an exchange (i.e., a reciprocal transaction).

Contributed revenue - In accordance with ASU 2016-14, Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (“ASU 2016-14”), when a transaction is determined to be a contribution, the Organization then determines whether it is conditional or unconditional. According to ASU 2018-08, Not for Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (“ASU 2018-08”), conditional contributions contain i) donor-imposed barrier(s) that must be overcome before the Organization is entitled to the assets transferred or promised and ii) a right of return to the contributor for assets transferred or a right of release of the promisor from its obligation to transfer assets. When the condition(s) are substantially met, the contribution becomes unconditional. Unconditional contributions are those that are absent of any indication that the Organization is only entitled to the transfer of assets or a future transfer of assets if it has overcome a barrier, or that the agreement does not contain a right of return of assets transferred or a right of release from obligation. Unconditional contributions are classified as either net assets with donor restrictions or net assets without donor restrictions and are recorded in accordance with the guidelines outlined in Subtopic 958-605, Not-for- Profit Entities – Revenue Recognition. Unconditional contributions are recognized when the donor makes a promise to give to the Organization. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions. Expenses are recorded when incurred in accordance with the accrual basis of accounting. Contributions received with restrictions that are met in the same reporting period as received are reported as unrestricted support and increase net assets without donor restrictions.

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)
Grant revenue is recognized in the period that the related work is performed in accordance with the terms of the grant. Grants receivable are recorded when revenue earned under a grant exceeds the cash received. Deferred revenue is recorded when cash received under a grant exceeds the revenue earned.

Donated property and equipment are recorded at fair market value at the date of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

The Organization receives substantial donations of materials, clothing, and food at the National City Warehouse where they are sorted and distributed. The Organization values the materials, clothing and food based on comparable cost estimates.

The Mission receives contributions from sponsors for the Organization's special events. Unless specified as restricted at the time of donation, these contributions are recorded as without donor restrictions at the point in time the event take place. Sponsorships that have been purchased as of September 30 for which events have not yet taken place are recorded as deferred revenues in the statements of financial position. Sponsorship revenue for special events amounted to $102,896 and $142,855 for the years ended September 30, 2022 and 2021, respectively, and is recorded as contribution revenue in the statements of activities. Deferred sponsorship revenue for special events was $61,842 and $36,657 as of September 30, 2022 and 2021, respectively.

The nature and extent of donated and contributed services received by the Organization range from the limited participation of many individuals in fundraising activities to active participation in the Organization's management and service programs during 2022 and 2021. The valuation of contributed time is not reflected in these statements since they do not require specialized skills.

The following is a summary of revenue and expenses related to donated items for the years ended September 30:

	2022	2021
Revenue:		
Donated food	$ 7,782,648	$ 9,264,017
Donated material	488,956	775,769
Total revenue	$ 8,271,604	$ 10,039,786
Expenses:		
Food services	$ 7,756,215	$ 9,231,996
Distribution center	452,795	851,728
Total expenses	$ 8,209,010	$ 10,083,724

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)
Exchange Transactions – The Organization accounts for exchange transactions in accordance with ASU No. 2014 -09 (ASC Topic 606), *Revenue from Contracts with Customers* ("Topic 606).

The Organization receives monthly bed fees from graduate students of Mission Academy. The agreement made between the Organization and its students are the identified contracts, which specify the amount of fees the students will pay the Organization based on the related program. The program utilizes a sliding scale that calculates monthly rent using the students' salaries and other factors, depending on the program. This program was discontinued in May 2021. The Mission's performance obligation for these agreements were to provide the clients with various resources based on the specific program as listed in the descriptions of the Organization's programs in Note 1, including housing, meals, practical skills classes, various forms of therapy, support groups, Bible study classes, and employment preparation training. Since the program was discontinued in May 2021, there are no incomplete performance obligations for the years ended September 30, 2022 and 2021. Program fee revenue amounted to $22,237 for the year ended September 30, 2021.

The Organization sold donated merchandise at its thrift store locations. The Organization recognized sales revenue at the time it sold merchandise to the customer, based on the price stated on each item for sale. This program was discontinued in October 2021. Revenue generation from the thrift store amounted to $53,384 and $707,307 for the years ended September 30, 2022 and 2021, respectively.

Rental income is recognized on a monthly basis in accordance with the lease agreements. The difference between recognizing actual rents received and recognizing rental income using the straight-line method under which contractual rent increases are recognized equally over the lease term are immaterial for financial statement presentation purposes. Rental income for lease contracts is recognized in accordance with Topic ASC 840: *Leases.*

The Mission maintains investments in marketable securities and a capital project fund. The Organization recognizes investment returns based on the fair value of the funds in accordance with ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. Investment returns for the marketable securities and the capital project funds are classified as without donor restrictions in the statements of activities (Notes 3 and 4).

Allocated expenses
Expenses by function have been allocated among program and supporting services classifications on the basis of internal records and estimates made by the Organization's management. Facility costs are allocated on the basis of square footage occupied. Warehouse costs are allocated 50% to the various departments basis on square footage occupied and 50% to thrift stores. Food service costs are allocated 40% to Partners for Hunger Relief and the remaining costs are allocated for the programs based on meals served.

Income taxes
SDRM and the Foundation are exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and from California income and franchise taxes under Revenue and Taxation Code Section 23701(d). SDRM and the Foundation are not private foundations.

The Organization uses a loss contingencies approach for evaluating uncertain tax positions and continually evaluates changes in tax laws and new authoritative rulings. No loss contingencies were recognized for the years ended September 30, 2022 and 2021.

2. Summary of significant accounting policies (continued)

Income taxes (continued)
The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires the Organization to report information regarding its exposure to various tax positions taken by the Organization. The Organization has determined whether any tax positions have met the recognition threshold and has measured the Organization's exposure to those tax positions. Management believes that the Organization has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Organization are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying consolidated financial statements.

Prior year summarized information
The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such financial information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2021, from which the summarized information was derived.

Change in accounting principle
On October 1, 2021, the Organization adopted a new accounting standard for ASU 2020-07 Not-for-Profit Entities (Topic 958), that affects the presentation and disclosure for contributed nonfinancial assets. Adopting this standard did not have a significant impact on the financial statements.

Recent and pending accounting pronouncements
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes FASB ASC Topic 840, Leases, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most lease on-balance sheet via the right of use asset and lease liability, and additional qualitative and quantitative disclosures. The standard will be effective for the Organization for annual periods beginning after December 15, 2021, permits early adoption, and mandates a modified retrospective transition method. The Organization is currently evaluating the effect of the standard on the financial statements. It is not expected to have a material effect.

Reclassifications
Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation.

Subsequent events
Subsequent events have been evaluated through January 17, 2023, which is the date the consolidated financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Investments

Investments in marketable securities are measured at fair value (see Note 2) under Level 1 of the valuation hierarchy and consist of the following as of September 30:

	2022	2021
Cash/Money Accounts	$ 142,586	$ -
Money Market Accounts	862,015	-
Equities	1,078,882	-
Mutual Funds	2,538,566	2,071,469
EFTs & CEFs	193,495	297,337
Other	24,795	-
Total	$ 4,840,339	$ 2,368,806

The following schedule summarizes the investment return and is classified as net assets without donor restrictions in the statement of activities for the years ended September 30, as follows:

	2022	2021
Interest and dividend income	$ 21,559	$ 13
Realized and unrealized gains/(losses)	(562,380)	216,052
Management fees	(27,883)	-
Total	$ (568,704)	$ 216,065

4. Capital project funds

The capital project funds are presented with investments in marketable securities in the statement of financial position as of September 30, 2022 and 2021. The accounts are measured at fair value (see Note 2) under Level 1 of the valuation hierarchy and consist of the following as of September 30:

	2022	2021
Cash/Money Accounts	$ 12,178	$ 1,760
Mutual Funds	283,347	342,896
ETFs & CEFs	31,534	50,492
Other	4,102	-
Total	$ 331,161	$ 395,148

The following schedule summarizes the investment return for the years ended September 30, 2022 and 2021. The gains on capital project funds are classified as net assets without donor restrictions in the statement of activities for the years ended September 30, as follows:

	2022	2021
Interest and dividend income	$ 651	$ -
Realized and unrealized gains/(losses)	(60,854)	52,712
Management fees	(3,784)	-
Total	$ (63,987)	$ 52,712

5. Barbara Lee scholarship fund

In December 2018, the Organization received a donation of $75,000 from a related party to be invested as a scholarship fund. In November 2019, the same donor contributed an additional $25,000 to the fund. During 2022, the scholarship fund was transferred from SDRM to the Foundation. The scholarship is measured at fair value (see Note 2) under Level 1 of the valuation hierarchy and is classified as net assets without donor restrictions in the statement of activities for the years ended September 30, 2022 and 2021, and consists of the following at September 30:

	2022	2021
Cash/Money Accounts	$ 126,517	$ 429
Mutual Funds	-	113,941
ETFs & CEFs	-	16,943
Total	$ 126,517	$ 131,313

The following schedule summarizes the investment return, which is classified as net assets without donor restrictions in the statement of activities for the years ended September 30, as follows:

	2022	2021
Interest and dividend income	$ 4,620	$ -
Realized and unrealized gains/(losses)	(4,823)	1,715
Management fees	(677)	-
Total	$ (880)	$ 1,715

6. Note receivable

Note receivable - New Market Tax Credit
The Foundation has the following note receivable from Twain Investment Fund 656, LLC as of September 30, 2022:

Note receivable, Interest at 1.00% per annum, interest-only receipts quarterly in arrears until September 2029 when principal payments commence in accordance with the loan amortization schedule, all outstanding principal and interest is due upon maturity in April 2047.	$ 7,047,960

Note receivable – North Park thrift store sale
On June 3, 2021, the Mission finalized the sale of its North Park thrift store for $2,800,000. The buyer paid an initial deposit of $20,000 in April 2021 and $396,000 in June 2021 upon settlement of the sale. After deducting the commissions and fees, the remaining balance due from the buyer was $2,300,000. The Mission entered into a note receivable agreement with the buyer, whereby the buyer will make interest-only payments at a rate of 5.5% through the maturity of the note on July 1, 2023, when the entire principal and any remaining interest due will be paid. The buyer has the option to exercise an extension through July 1, 2024, whereby the buyer will make interest-only payments at a rate of 6.5% through the maturity of the note on July 1, 2024, when the entire principal and any remaining interest due will be paid. The Mission received interest income from the note receivable in the amount of $126,500 and $41,464, respectively, for the years ended September 30, 2022 and 2021, which is recorded as interest income in the statements of activities. Proceeds from the sale of the thrift store, net of commission and fees, amounted to $2,718,990. The net book value of the thrift store was $790,050, resulting in a gain on the sale of the thrift store of $1,922,940, which is recorded with gain on sale of fixed assets, net on the statement of activities for the year ended September 30, 2021.

7. Pledges receivable

As of September 30, 2022, the Organization's contributions receivable consisted of unconditional promises to give in the following amounts:

		2022
Expected to be collected during the year ended:		
September 30, 2023	$	1,718,669
September 30, 2024		1,097,206
September 30, 2025		1,042,816
September 30, 2026		30,555
Gross pledges receivable		3,889,246
Less: allowance for uncollectible pledges		(194,462)
Less: discount to reflect pledges receivable at present value		(310,211)
Pledges receivable, net	$	3,384,573

As of September 30, 2022, the discount rate on the pledges receivable was 8.24%.

8. Fixed assets

As of September 30, 2022 and 2021, the Organization's fixed assets consist of the following:

	2022	2021
Land	$ 5,920,396	$ 4,907,642
Building and improvements	28,871,081	20,383,569
Equipment	412,903	350,635
Furniture and fixtures	539,683	452,212
Autos and trucks	259,595	250,350
Equipment under capital lease	344,973	344,973
Software	280,949	261,872
	36,629,580	26,951,253
Less: accumulated depreciation and amortization	(10,305,639)	(9,581,486)
	$26,323,941	$17,369,767

9. Line of credit

On November 5, 2020, the Mission entered into a new revolving line of credit agreement in the amount of $2,300,000 to fund certain operating activities. Interest of LIBOR plus 2.25% accrues from the date of each advance until the repayment of each advance. Accrued unpaid interest shall be due on November 5, 2023. The line of credit is secured by a commercial security agreement. No advances were made from the line of credit during both years ended September 30, 2022 and 2021.

10. Notes payable

Notes payable consists of the following as of September 30:

	2022	2021
Note payable to a commercial bank dated October 11, 2013, secured by a deed of trust, in the original amount of $6,827,000, which bore interest at 4.5% per annum until the note was refinanced in November 2020 for $5,000,000 with an interest rate of 3.1%. Payments are interest only until December 2022, at which time principal and interest are payable in monthly installments of $58,976. The note will be due on November 5, 2030. Accrued interest payable totaled $0 as of both September 30, 2022 and 2021.	$ 5,000,000	$ 5,000,000
Note payable to the Redevelopment Agency of the City of San Diego dated May 19, 2004, in the original amount of $2,000,000 bears interest at 3% annum. Interest is deferred over the term of the loan, and the note and accrued interest will be deemed paid in full at maturity if all covenants, conditions, and restrictions included in the loan agreement are complied with. The note is due May 2059 and is secured by a deed of trust. Accrued interest totaled $1,455,088 and $1,353,100 as of September 30, 2022 and 2021, respectively.	2,000,000	2,000,000
Note payable to CCP NMTC Sub-CDE XIX, LLC ("CDE") dated April 14, 2022, in the original amount of $7,047,960, which bears interest at 1.3331% per annum. Commencing June 5, 2022, interest-only payments in the amount of $23,489 shall be due and payable in quarterly installments through June 5, 2029. Commencing September 5, 2029, principal and interest payments in the amount of $89,634 shall be made quarterly. The note is due April 14, 2052 and is secured by a deed of trust. Accrued interest payable totaled $0 as of both September 30, 2022 and 2021.	7,047,960	-
Note payable to CDE dated April 14, 2022, in the original amount of $2,312,040, which bears interest at 1.3331% per annum. Commencing June 5, 2022, interest-only payments in the amount of $7,705 shall be due and payable in quarterly installments through June 5, 2029. Commencing September 5, 2029, principal and interest payments in the amount of $29,404 shall be made quarterly. The note is due April 14, 2052 and is secured by a deed of trust. Accrued interest payable totaled $0 as of both September 30, 2022 and 2021.	2,312,040	-

10. Notes payable (continued)

	2022	2021
Note payable to South Bay Community Church of National City dated February 22, 2022, secured by a deed of trust, in the original amount of $4,750,000 which bears interest at 3% per annum. Interest-only payments are payable monthly in the amount of $11,875. The note is due February 22, 2024. Accrued interest payable totaled $0 as of both September 30, 2022 and 2021.	$ 4,750,000	$ -
Total notes payable	21,110,000	7,000,000
Less: current portion	(464,345)	-
Less: unamortized loan costs	(307,288)	(11,354)
	$20,338,367	$6,988,646

Debt issuance costs related to the refinanced commercial bank note payable were $10,104 and $11,354, net of accumulated amortization of $2,396 and $1,146 as of September 30, 2022 and 2021, respectively, are presented as a contra-liability offsetting the note payable balance in the statements of financial position. For the years ended September 30, 2022 and 2021, the effective interest rate was 3.17% and 3.77%, respectively.

Loan costs related to the new market tax credit funding note of $297,184, net of accumulated amortization of $5,881 as of September 30, 2022, are presented as a contra-liability offsetting the note payable balance in the statements of financial position. For the year ended September 30, 2022, the effective interest rate was 1.0219%.

These loan costs are being amortized on a straight-line basis over the term of the associated debt.

During the year ended September 30, 2020, the Mission applied for a loan through the Paycheck Protection Program ("PPP") to assist in potential liquidity issues related to the coronavirus outbreak (see Note 13). On May 6, 2020, the Organization received $850,000 from the PPP, which was created by the Coronavirus Aid, Relief, and Economic Security ("CARES") Act to provide certain small businesses with liquidity to support their operations during the COVID-19 pandemic. The SBA-approved loan had a 1% fixed interest rate, a payment deferral period for 6 months after commencement, and was due two years after commencement, but was eligible for forgiveness, either in full or in part, under certain conditions. The Mission recorded the loan as debt in the full amount received. Since the Organization expected the full amount to be forgiven, the Mission had not accrued interest as of September 30, 2020. On May 11, 2021, the $850,000 principal balance, along with accrued interest of $8,594, was forgiven in full. Upon forgiveness, the Organization recognized the debt extinguishment as Paycheck Protection Program loan proceeds on the statement of activities for the year ended September 30, 2021.

In November 2020, the Mission entered into a promissory note agreement with a commercial bank for a principal amount of $5,000,000 and an interest rate of 3.1%. Payments are interest-only through December 2022, after which monthly principal and interest payments are $58,976 through the note's maturity on November 5, 2030. The note paid off the outstanding principal and interest of the prior note payable through the date of the refinance.

Interest expense was $402,491 and $258,188 for the years ended September 30, 2022 and 2021, respectively. As of September 30, 2022, the Organization was in substantial compliance with the covenants, conditions, and restrictions included in the loan agreements.

10. Notes payable (continued)

Future principal payments on the notes payable are as follows:

Years ending September 30,		
2023	$	464,345
2024		5,323,018
2025		591,666
2026		610,533
2027		630,001
Thereafter		13,490,437
	$	21,110,000

11. Net assets

Net assets consist of the following as of September 30:

	2022	2021
Without donor restrictions:		
Designated by the board for capital projects	$ 331,161	$ 395,148
Undesignated	22,030,906	19,956,197
	22,362,067	20,351,345
With donor restrictions:		
Barbara Lee scholarship fund	-	129,566
Walk With Me program	63,435	25,368
Mobile Shower Ministry	121,895	65,000
Handicap Accessible van	45,000	-
Nueva Vida Haven improvements	-	23,513
Lobby renovation project	-	17,545
Capital Campaign projects	3,384,573	-
	3,614,903	260,992
Total net assets	$ 25,976,970	$ 20,612,337

12. Lease agreements

Facility and equipment leases
The Organization leases commercial space for its administrative offices, the Sports Arena thrift store, and the Bread of Life program in San Diego County. The term of the administrative office lease is from March 1, 2016, through July 31, 2026. The term of the lease for the Sports Arena thrift store in San Diego is from June 1, 2019, through January 31, 2023. The term of the Bread of Life program space is from July 1, 2019, through June 30, 2022. Rent expense under the commercial leases totaled $507,006 and $509,452 for the years ended September 30, 2022 and 2021, respectively.

12. Lease agreements (continued)

Facility and equipment leases (continued)
The Organization has entered into various noncancelable operating equipment leases.

Future minimum rental payments under the leases are as follows:

Years ending September 30,	Equipment leases	Facility leases	Total minimum lease payments
2023	$ 32,841	$ 240,370	$ 273,211
2024	-	174,218	174,218
2025	-	179,445	179,445
2026	-	153,645	153,645
	$ 32,841	$ 747,678	$ 780,519

Capital leases
Equipment under capital lease consists of three delivery trucks with total capitalized costs of $344,973 as of both September 30, 2022 and 2021. The assets and liabilities under capital leases are recorded at the lower of the present value of minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive life. Amortization of assets under capital leases was $51,509 and $96,719 for the years ended September 30, 2022 and 2021, respectively, and is included in depreciation and amortization expense on the accompanying statements of activities. Interest on the capital leases was $17,593 and $24,310 for the years ended September 30, 2022 and 2021, respectively. Future minimum lease payments are as follows:

Years ending September 30,	
2023	$ 61,545
2024	45,444
2025	35,998
	142,987
Amount representing interest	(21,134)
	$ 121,853

Rental income
The Organization owns the building located at 120 Elm Street and 1840 First Avenue, San Diego, California and leases space to others in these buildings under operating leases which expire on various dates through December 2023.

Rental income under lease agreements totaled $270,692 and $209,431 for the years ended September 30, 2022 and 2021, respectively.

13. Retirement plan

The Mission has a defined contribution plan covering employees aged 18 years or over with at least one year of service. The Mission matches employees' contributions equal to 100% of employees' elective deferral contributions which are not over 3% of their pay, plus 50% of their elective deferral contributions which are over 3% of their pay but are not over 5% of their pay. Total employer contributions were $105,216 and $60,161 for the year ended September 30, 2022 and 2021, respectively.

14. Liquidity and funds available

The following table reflect the Organization's financial assets as of September 30, 2022 and 2021, reduced by amounts not available for general expenditure within one year. Financial assets include assets that are considered unavailable when illiquid or not convertible to cash within one year and receivables not available for general expenditure.

	2022	2021
Financial assets:		
Cash and cash equivalents	$ 3,891,756	$ 6,506,229
Investments	5,171,500	2,763,954
Pledges receivable, net	3,384,573	-
Accounts receivable	182,478	-
Notes receivable	9,347,960	2,300,000
Financial assets at year-end	21,978,267	11,570,183
Less those unavailable for general expenditure within one year		
Net assets with donor restrictions	(230,330)	(260,992)
Pledges receivable, net	(3,384,573)	-
Notes receivable	(9,347,960)	(2,300,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 9,015,404	$ 9,009,191

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

15. New market tax credit funding

On February 11, 2022, the Foundation, an affiliate nonprofit organization, was established to facilitate the NMTC financing structure. The Foundation is to operate exclusively for the benefit of, to perform the functions of, and/or to carry out the purpose of the Organization.

On April 14, 2022, in connection to, and concurrent with, the NMTC QLICI financing, the Organization entered into a donation agreement with the Foundation. In accordance with the agreement, the Organization provided financial support in the form of a grant in the amount of $7,047,960 to the Foundation to assist with the financing of the NMTC transaction. This donation is not from the portion of the Organization's business that is the QALICB (that is, the donation was from the non-POB portion; see supplemental schedule). The Foundation then used the funds to provide a $7,047,960 loan to an unrelated entity, Twain Investment Fund 656, LLC (the "Fund"), the 99.99% member of CDE, the QLICI loan lender.

15. New market tax credit funding (continued)

On April 14, 2022, the Organization secured the QLICI Loans from CDE (see Note 10). As a result of the QLICI Loans, U.S. Bancorp Community Development Corporation (the "Investor") is eligible for federal income tax credits under the NMTC program implemented by Congress in December 2000 and pursuant to IRC Section 45D to assist eligible businesses in making investments in certain low-income communities.

After the expiration of the NMTCs on April 14, 2029, the Investor has until October 14, 2029 to exercise its right, but not an obligation, to require the Foundation to purchase all of the Investor's interest in the Fund for a put exercise price of $1,000. If the put is not exercised, the Foundation has the option, during the period from October 14, 2029 to April 14, 2030 to purchase the Investor's interest in the Fund equal to the fair market value of the interest, as determined by the terms of the Put and Call Agreement dated April 14, 2022. The Foundation will record any gain or loss associated with either option at the date it is exercised. The options do not represent embedded derivatives.

16. Acquisition

On October 1, 2020, the Mission acquired Bread of Life Rescue Mission ("Bread of Life"), an exempt organization under Section 501(c)(3) of the Internal Revenue Code, by recognizing its assets and liabilities as of October 1, 2020. The Mission has continued operating Bread of Life's programs and members of Bread of Life's governing body joined the governing body of the Organization. Since no consideration was transferred in the acquisition of Bread of Life, Bread of Life did not have noncontrolling interests, and there was no goodwill recorded in the acquisition, the resulting bargain purchase of the acquired organization was recorded as an increase in net assets in the amount that assets exceeded the liabilities assumed. As of October 1, 2020, Bread of Life's assets acquired by the Mission exceeded the liabilities assumed in the amount of $264,257.

On August 31, 2022, the Mission acquired the land and building located at 1818 First Avenue for $2,475,000 with unrestricted available funds. When renovations on the building are completed, this property will serve as the Mission's administrative offices. Management intends to move into the building in April 2023 at which time they will terminate the Mission's lease of 111 Elm Street.

On February 23, 2022, the Mission acquired the National City Navigation Center located at 2400 Euclid Avenue for $6,125,000. The Mission purchased the land and building using restricted funds of $1,375,000 and a note payable to South Bay Community Church of National City in the amount of $4,750,000 (see Note 10). When renovations to the building are completed, the center will have 50 beds and support services such as meals, showers, job training, and mental and medical care.

SUPPLEMENTARY INFORMATION

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2022

	San Diego Rescue Mission			Eliminating	
	POB	Non - POB	Foundation	Activity	Total
ASSETS					
Current assets					
Cash and cash equivalents	$ 623,323	$ 3,212,361	$ 56,072	$ -	$ 3,891,756
Investments	331,161	4,840,339	-	-	5,171,500
Current portion of pledges receivable, net	-	1,632,736	-	-	1,632,736
Accounts receivable	-	182,478	-	-	182,478
Prepaid expenses	192,787	301,474	-	-	494,261
Other current assets	-	1,851	-	-	1,851
Inventory, net	-	104,250	-	-	104,250
Total current assets	1,147,271	10,275,489	56,072	-	11,478,832
Property and equipment, net	15,589,696	10,734,245	-		26,323,941
Other assets					
Scholarship fund	-	-	126,517	-	126,517
Construction in progress	118,597	234,644	-	-	353,241
Notes receivable	-	2,300,000	7,047,960	-	9,347,960
Pledges receivable, net	-	1,751,837	-	-	1,751,837
Other long-term assets	11,717	30,963	-	-	42,680
Total other assets	130,314	4,317,444	7,174,477	-	11,622,235
Total assets	$ 16,867,281	$ 25,327,178	$ 7,230,549	$ -	$ 49,425,008
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable and accrued liabilities	$ 390,599	$ 287,954	$ -	$ -	$ 678,553
Compensated absences	143,710	54,813	-	-	198,523
Deferred revenue	-	61,842	-	-	61,842
Deposits	-	20,510	-	-	20,510
Current portion of capital lease obligations	-	54,968	-	-	54,968
Current portion of notes payable, net	-	464,345	-	-	464,345
Total current liabilities	534,309	944,432	-	-	1,478,741
Long-term liabilities					
Notes payable, net	16,052,712	4,285,655	-	-	20,338,367
Interest payable	1,455,088	-	-	-	1,455,088
Deferred rent	-	91,363	-	-	91,363
Capital lease obligations	-	84,479	-	-	84,479
Total long-term liabilities	17,507,800	4,461,497	-	-	21,969,297
Total liabilities	18,042,109	5,405,929	-	-	23,448,038
NET ASSETS					
Without donor restrictions	(1,174,828)	16,306,346	7,230,549	-	22,362,067
With donor restrictions	-	3,614,903	-	-	3,614,903
Total net assets	(1,174,828)	19,921,249	7,230,549	-	25,976,970
Total liabilities and net assets	$ 16,867,281	$ 25,327,178	$ 7,230,549	$ -	$ 49,425,008

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	San Diego Rescue Mission			Eliminating	
	POB	Non - POB	Foundation	Activities	Total
NET ASSETS					
REVENUE AND OTHER SUPPORT					
Contributions	$ 1,691,031	$ 17,259,525	$ 7,197,960	$ (8,888,991)	$ 17,259,525
Donated food	-	7,782,648	-	-	7,782,648
Grants and contracts	235,000	510,931	-	-	745,931
Donated material	7,579,259	488,956	-	(7,579,259)	488,956
Rental income	-	270,692	-	-	270,692
Program fees	-	237,789	-	-	237,789
Interest income	-	126,500	32,695	-	159,195
Thrift stores	-	53,384	-	-	53,384
Vehicle donation sales	-	38,150	-	-	38,150
Gain on sales of fixed assets, net	-	25,274	-	-	25,274
Other	-	7,049,210	-	(7,047,960)	1,250
Total revenue and other support	9,505,290	33,843,059	7,230,655	(23,516,210)	27,062,794
EXPENDITURES					
Program services					
Men, women, and children's services	3,013,434	8,275,322	-	-	11,288,756
Partners for Hunger Relief	-	2,985,673	-	-	2,985,673
Bread of Life/Oceanside Navigation Center	-	1,222,755	-	-	1,222,755
Church Partnership	275,044	247,728	-	-	522,772
Thrift store ministry	-	221,570	-	-	221,570
National City Navigation Center	-	103,668	-	-	103,668
New Market Tax Credit	7,295,508	1,450	106	(7,197,960)	99,104
Special events	-	41,438	-	-	41,438
Total program service	10,583,986	13,099,604	106	(7,197,960)	16,485,736
Management and general	60,498	1,223,522	-	-	1,284,020
Fundraising	35,634	3,259,200	-	-	3,294,834
Total expenditures	10,680,118	17,582,326	106	(7,197,960)	21,064,590
Change in net assets from operations	(1,174,828)	16,260,733	7,230,549	(16,318,250)	5,998,204
NONOPERATING ACTIVITIES					
Investment interest and dividends	-	26,830	-	-	26,830
Realized investment gain (loss)	-	(123,545)	-	-	(123,545)
Unrealized investment gain (loss)	-	(536,856)	-	-	(536,856)
Total nonoperating activities	-	(633,571)	-	-	(633,571)
CHANGE IN NET ASSETS	(1,174,828)	15,627,162	7,230,549	(16,318,250)	5,364,633
NET ASSETS AT BEGINNING OF YEAR	-	20,612,337	-	-	20,612,337
NET ASSETS AT END OF YEAR	$ (1,174,828)	$ 36,239,499	$ 7,230,549	$ (16,318,250)	$ 25,976,970

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	San Diego Rescue Mission			Eliminating	
	POB	Non - POB	Foundation	Activities	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net assets	$ (8,754,087)	$ 6,888,171	$ 7,230,549	$ -	$ 5,364,633
Adjustments to reconcile change in net assets to					
net cash (used in) provided by operating activities:					
Depreciation and Amortization	599,441	158,122	-	-	757,563
Beneficial interest in charitable gift annuity	6,807	-	-	-	6,807
In-kind (distribution)/contribution of inventory, net	-	(62,595)	-	-	(62,595)
Net unrealized and realized loss (gain) on investments	52,586	469,325	-	-	521,911
Net unrealized and realized loss (gain) on scholarship fund	-	14,945	-	-	14,945
Transfer to investment account from operations	-	(2,776,937)	-	-	(2,776,937)
Decrease (increase) in assets:					
Account receivable	-	(182,478)	-	-	(182,478)
Prepaid expenses	175,224	(279,234)	-	-	(104,010)
Pledges receivable, net	-	(3,384,573)	-	-	(3,384,573)
Other current assets	-	3,240	-	-	3,240
Increase (decrease) in liabilities:					
Accounts payable and accrued liabilities	151,920	(25,625)	-	-	126,295
Compensated absences	10,054	(6,001)	-	-	4,053
Deferred revenue	-	25,185	-	-	25,185
Deposits	-	29,030	-	-	29,030
Interest payable	101,988	-	-	-	101,988
Deferred rent	-	(9,660)	-	-	(9,660)
Net cash (used in) provided by operating activities	(7,656,067)	860,915	7,230,549	-	435,397
CASH FLOWS FROM INVESTING ACTIVITIES					
Investments	(2,526)	(33,126)	-	(126,517)	(162,169)
Investment in scholarship fund	-	(500)	(126,517)	126,517	(500)
Purchase of property and equipment	(921,381)	(8,675,477)	-	-	(9,596,858)
Increase in notes receivable	-	-	(7,047,960)	-	(7,047,960)
Net cash used in investing activities	(923,907)	(8,709,103)	(7,174,477)	-	(16,807,487)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from notes payable	9,360,000	4,750,000	-	-	14,110,000
Payment of debt issuance costs	(303,065)	-	-	-	(303,065)
Principal payments on capital lease obligation	-	(49,318)	-	-	(49,318)
Net cash provided by financing activities	9,056,935	4,700,682	-	-	13,757,617
Net change in cash and cash equivalents	476,961	(3,147,506)	56,072	-	(2,614,473)
Cash and cash equivalents at beginning of year	146,362	6,359,867	-	-	6,506,229
Cash and cash equivalents at end of year	$ 623,323	$ 3,212,361	$ 56,072	$ -	$ 3,891,756