San Diego Rescue Mission and Subsidiaries

Consolidated Financial Statements with Report of Independent Auditors
September 30, 2023
(with comparative totals for the year ended September 30, 2022)

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, 2023, and the related consolidated statement of activities and change in net assets, 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, 2023, 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 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, San Diego Rescue Mission and Subsidiaries adopted accounting standards changes related to accounting for and disclosing leasing arrangements. Our opinion is not modified with respect to this matter.

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 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

We have previously audited San Diego Rescue Mission and Subsidiaries' 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 17, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2022 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Novogradac & Company LLP

Long Beach, CA
February 4, 2024

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2023
(with comparative totals as of September 30, 2022)

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,303,348	$ 3,436,623
Investments	6,344,635	5,171,500
Current portion of pledges receivable, net	2,229,503	1,632,736
Current portion of note receivable	2,300,000	-
Accounts receivable	857,105	182,478
Prepaid expenses	430,519	494,261
Other current assets	560	1,851
Inventory, net	276,684	104,250
Total current assets	13,742,354	11,023,699
Property and equipment, net	26,490,383	26,323,941
Other assets		
Restricted cash	392,333	455,133
Scholarship fund	125,691	126,517
Construction in progress	2,354,031	353,241
Notes receivable	7,047,960	9,347,960
Pledges receivable, net	1,951,491	1,751,837
Right-of-use asset, net	111,324	-
Other long-term assets	21,245	42,680
Total other assets	12,004,075	12,077,368
Total assets	$ 52,236,812	$ 49,425,008
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,677,753	$ 678,553
Compensated absences	211,840	198,523
Deferred revenue	134,863	61,842
Deposits	20,660	20,510
Current portion of lease liability	65,763	54,968
Current portion of notes payable, net	573,018	464,345
Total current liabilities	2,683,897	1,478,741
Long-term liabilities		
Notes payable, net	19,777,949	20,338,367
Interest payable	1,160,000	1,455,088
Deferred rent	-	91,363
Lease liability	54,344	84,479
Total long-term liabilities	20,992,293	21,969,297
Total liabilities	23,676,190	23,448,038
NET ASSETS		
Without donor restrictions	24,334,105	22,362,067
With donor restrictions	4,226,517	3,614,903
Total net assets	28,560,622	25,976,970
Total liabilities and net assets	$ 52,236,812	$ 49,425,008

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2023
(with comparative totals for the year ended September 30, 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
NET ASSETS				
REVENUE AND OTHER SUPPORT				
Contributions	$ 14,487,316	$ 836,377	$ 15,323,693	$ 17,259,525
Donated food	5,974,913	-	5,974,913	7,782,648
Grants and contracts	813,000	34,013	847,013	745,931
Donated material	1,280,370	-	1,280,370	488,956
Rental income	324,264	-	324,264	362,643
Program fees	404,343	-	404,343	145,838
Interest income	202,730	-	202,730	159,195
Thrift stores	997	-	997	53,384
Vehicle donation sales	46,800	-	46,800	38,150
Gain on sales of fixed assets, net	-	-	-	25,274
Other	1,004,693	-	1,004,693	1,250
Net assets released from restrictions by specific purpose	258,776	(258,776)	-	-
Total revenue and other support	24,798,202	611,614	25,409,816	27,062,794
EXPENDITURES				
Program services				
Men, women, and children's services	12,196,596	-	12,196,596	11,288,756
Mission services	373,148	-	373,148	-
Partners for Hunger Relief	2,621,035	-	2,621,035	2,985,673
Bread of Life/Oceanside Navigation Center	638,470	-	638,470	1,222,755
Church partnership	466,564	-	466,564	522,772
Thrift store ministry	122,597	-	122,597	221,570
National City Navigation Center	263,553	-	263,553	103,668
Outreach	493,143	-	493,143	-
New markets tax credit	167,409	-	167,409	99,104
Special events	48,175	-	48,175	41,438
Total program service	17,390,690	-	17,390,690	16,485,736
Management and general	1,414,291	-	1,414,291	1,284,020
Fundraising	4,476,294	-	4,476,294	3,294,834
Total expenditures	23,281,275	-	23,281,275	21,064,590
Change in net assets from operations	1,516,927	611,614	2,128,541	5,998,204
NONOPERATING ACTIVITIES				
Investment interest and dividends	60,175	-	60,175	26,830
Realized investment gain (loss)	(125,213)	-	(125,213)	(123,545)
Unrealized investment gain (loss)	520,149	-	520,149	(536,856)
Total nonoperating activities	455,111	-	455,111	(633,571)
CHANGE IN NET ASSETS	1,972,038	611,614	2,583,652	5,364,633
NET ASSETS AT BEGINNING OF YEAR	22,362,067	3,614,903	25,976,970	20,612,337
NET ASSETS AT END OF YEAR	$ 24,334,105	$ 4,226,517	$ 28,560,622	$ 25,976,970

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2023

(with comparative totals for the year ended September 30, 2022)

	2023				2022
EXPENDITURES	Program Services	Management and General	Fundraising	Total	Total
Salaries and wages	$ 4,392,026	$ 568,484	$ 1,105,872	$ 6,066,382	$ 4,583,280
Employee benefits	436,881	50,925	108,098	595,904	486,145
Payroll tax expense	369,847	35,347	80,769	485,963	357,709
Donated food and materials	7,007,510	37,670	37,670	7,082,850	8,209,010
Fundraising	56,751	1,173	2,651,961	2,709,885	1,903,256
Facilities allocated costs	1,643,490	64,376	64,376	1,772,242	1,692,336
Food services allocated costs	794,461	-	-	794,461	689,771
Depreciation and amortization	932,762	58,459	14,615	1,005,836	634,603
Lease expense	79,689	-	-	79,689	-
Outside services	167,706	357,300	13,968	538,974	434,128
Interest	463,891	7,197	7,197	478,285	409,381
Rent	122,183	-	-	122,183	331,748
Supplies	156,284	5,168	15,324	176,776	143,888
Distribution center allocated costs	-	-	-	-	131,184
Professional fees	3,500	53,210	116	56,826	125,459
Client services	132,021	52	34	132,107	114,370
Public relations	11,400	-	89,250	100,650	103,983
Other	64,646	24,011	16,007	104,664	100,496
Auto expense	64,902	-	-	64,902	99,052
Bank fees	-	18,338	87,619	105,957	94,041
Meal, travel, and entertainment	43,540	22,344	40,962	106,846	85,148
Security	206,298	-	-	206,298	83,842
Communications	39,449	98,997	80,924	219,370	60,932
Dues and subscriptions	51,941	8,249	9,491	69,681	49,604
Utilities	68,615	-	-	68,615	46,705
Postage	644	1,336	50,924	52,904	42,808
Repairs and maintenance	18,757	-	-	18,757	19,013
Insurance	-	1,592	1,061	2,653	-
Permit/license	51,176	20	13	51,209	16,996
Equipment rental	9,235	-	-	9,235	8,659
Food	-	-	-	-	5,872
Loan fees	1,085	43	43	1,171	1,171
Total expenditures	$ 17,390,690	$ 1,414,291	$ 4,476,294	$ 23,281,275	$ 21,064,590

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2023
(with comparative totals for the year ended September 30, 2022)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 2,583,652	$ 5,364,633
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	1,087,210	757,563
Lease expense	79,689	-
Beneficial interest in charitable gift annuity	(1,462)	6,807
In-kind distribution of inventory, net	(172,434)	(62,595)
Net unrealized and realized loss (gain) on investments	(520,149)	521,911
Net unrealized and realized loss (gain) on scholarship fund	-	14,945
Transfer to investment account from operations	(2,749,476)	(2,776,937)
Change in assets:		
Account receivable	(674,627)	(182,478)
Prepaid expenses	63,742	(104,010)
Pledges receivable, net	(796,421)	(3,384,573)
Other current assets	1,291	3,240
Change in liabilities:		
Accounts payable and accrued liabilities	1,039,815	126,295
Compensated absences	13,317	4,053
Deferred revenue	73,021	25,185
Deposits	23,047	29,030
Interest payable	(295,088)	101,988
Deferred rent	(91,363)	(9,660)
Net cash (used in) provided by operating activities	(336,236)	435,397
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale (purchase) of investments	2,096,490	(162,169)
Withdrawal from (investment in) scholarship fund	826	(500)
Purchase of property and equipment	(3,473,470)	(9,596,858)
Loans made to borrowers	-	(7,047,960)
Net cash used in investing activities	(1,376,154)	(16,807,487)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payments on) proceeds from notes payable	(464,345)	14,110,000
Payment of debt issuance costs	-	(303,065)
Principal payments on lease liability	(19,340)	(49,318)
Net cash (used in) provided by financing activities	(483,685)	13,757,617
Net change in cash, cash equivalents, and restricted cash	(2,196,075)	(2,614,473)
Cash, cash equivalents, and restricted cash at beginning of year	3,891,756	6,506,229
Cash, cash equivalents, and restricted cash at end of year	$ 1,695,681	$ 3,891,756

see accompanying notes

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2023

(with comparative totals for the year ended September 30, 2022)

	2023	2022
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 773,373	$ 300,503
In-kind contributions:		
Stock	$ -	$ 126,347
Supplemental disclosures of non-cash investing and financing activities		
Disposal of fixed assets	$ 5,914	$ 26,279
Increase in right-of-use asset and lease liability	$ 191,013	$ -
Decrease in accounts payable included in purchase of property and equipment	$ 40,615	$ -

see accompanying notes

1. Organization

The accompanying consolidated 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 single women and women with children experiencing homelessness. Each night, up to 60 women and children use the 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.

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 members, 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.

1. Organization (continued)

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.

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.

Oceanside Navigation Center
The Oceanside Navigation Center (ONC) provides emergency shelter services for people experiencing homelessness. This is a partnership with the City of Oceanside. The San Diego Rescue Mission funds the day-to-day operations through donations and grants while the City owns the building. ONC is designed to serve single men, single women and families. Those being served are referred to as guests. Each night, up to 50 men, women and children use the facility for a warm, safe place to sleep, a place to shower and obtain clean clothes and a place to receive nutritious meals. Residents also have access to case managers to help them determine the best course of action for life improvement. The ONC partners with other agencies and government entities such as the County of San Diego to provide access to additional resources for the guests. This includes entry into the Organization's Mission Academy.

Outreach Services
The Outreach Department operates two shower trailers. One operates in North County primarily in Oceanside. The second one operates in the South Bay Serving the Cities of Chula Vista, National City, San Diego and Imperial Beach. These trailers offer showers with the opportunity to connect with services. Food and clothing are also provided. The Outreach Departments also provides street case management services to people experiencing homelessness in the North Costal region and the Little Italy Association in San Diego.

Church and Community Engagement
The Church and Community Engagement department has three key roles: 1) Uniting the local Church around healing our region from homelessness. We do this by engaging with hundreds of churches on multiple levels, including financial giving, serving, donation drives, chapel services and chaplaincy. Our partnerships with churches are two-way, meaning we also help them educate their congregations on SDRM and homelessness in general -- to open their hearts and invite them to be part of the solution. 2) Offering a robust volunteer program that provides impactful opportunities for multiple constituents (donors, corporations, churches, schools, and individuals) to serve with us and experience the power of our work first-hand. 3) Hosting three public outreach meals at Thanksgiving, Christmas and Easter for our neighbors in need.

2. Summary of significant accounting policies

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.

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.

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 consolidated 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 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.

2. Summary of significant accounting policies (continued)

Cash and cash equivalents (continued)
Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for new market tax credit purposes. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statements of financial position that sum to the total of the same such amounts shown on the statements of cash flows as of September 30:

	2023	2022
Cash and cash equivalents	$ 1,303,348	$ 3,436,623
Restricted cash	392,333	455,133
Total cash, cash equivalents and restricted cash shown on the statements of cash flows	$ 1,695,681	$ 3,891,756

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.

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 fund the conversion of two buildings located in National City, California that will provide shelter and services for 162 people in addition to room renovations at 120 Elm Street and operations at the Oceanside Navigation Center. 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, 2023 and 2022, the balance of the allowance for doubtful accounts was $235,236 and $194,462, respectively.

2. Summary of significant accounting policies (continued)

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:

	Level 1 2023	Level 1 2022
Cash/Money Accounts	$ 96,844	$ 154,764
Money Market Accounts	1,464,239	862,015
Equities	1,398,071	1,078,882
Mutual Funds	2,984,235	2,821,913
EFTs & CEFs	401,246	225,029
Other	-	28,897
Total	$ 6,344,635	$ 5,171,500

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.

2. Summary of significant accounting policies (continued)

Investments (continued)
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, 2023 and 2022 was $1,074,610 and $698,923, respectively. For the years ended September 30, 2023 and 2022, depreciation expense was allocated on the accompanying statements of functional expenses as follows: Depreciation and amortization: $1,005,836 and $634,603, respectively; facilities allocated costs: $68,774 and $64,320, respectively. 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

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 each of the years ended September 30, 2023 and 2022.

2. Summary of significant accounting policies (continued)

Notes receivable and allowance for loan losses
Notes receivable are stated at unpaid principal balances, less an allowance for loan losses and net of deferred loan origination fees and unearned discounts, as applicable. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Management's periodic evaluation of the adequacy of the allowance is based on the Organization's past loan loss experience, known and other risks inherent in the portfolio, specific impaired loans, and adverse situations. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The Organization considers a loan impaired when based on current information or factors, it is probable that the Organization will not collect the principal and interest payments according to the loan agreement. Management considers many factors in determining whether a loan is impaired, such as payment history and value of collateral. Loans that are contractually delinquent less than 90 days are generally not considered impaired, unless the borrower has claimed bankruptcy or the Organization has received specific information concerning the loan impairment. The Organization reviews delinquent loans to determine impaired accounts. The Organization measures impairment on a loan-by-loan basis by either using the fair value of collateral or the present value of expected cash flows.

The Organization's key credit quality indicator is a loan's performance status, defined as accruing or non-accruing. Performing loans are considered to have a lower risk of loss, while nonaccrual loans are those which the Organization believes have a higher risk of loss. Loans that are 90 days or more past due, based on the contractual terms of the loan, are classified on nonaccrual status. Loans may also be placed on nonaccrual when management believes, after considering economic conditions, business conditions, and collection efforts, that the loans are impaired or collection of interest is doubtful. Uncollectable interest previously accrued is charged off, or an allowance is established by a charge to interest income. Interest income on nonaccrual loans is recognized only to the extent cash payments are received and the principal balance is believed to be collectable. There were no loans on nonaccrual status as of both September 30, 2023 and 2022.

A loan previously classified on nonaccrual status will resume accruing interest based on the contractual terms of the loan when payments on the loan become current. Loans may also resume accruing interest if management no longer believes a loan is impaired or the collection of principal and interest is no longer in doubt. As of both September 30, 2023 and 2022, management believed that the Organization's loans receivable were fully collectable and as such, the allowance for loan loss was zero.

Loan origination and commitment fees, as well as certain direct origination costs, are deferred and recognized into income ratably over the term of the loan. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

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.

2. Summary of significant accounting policies (continued)

Deferred rent
The Organization was the lessor of certain commercial space and accounted for its leases as operating leases. For the year ended September 30, 2023, the Organization recognized a right-of-use asset and corresponding lease liability for the lease payments during the lease term. Prior to the adoption of Accounting Standards Codification 842, *Leases*, the difference between rent expense and rent paid was recorded as deferred rent and was classified as a long-term liability as of September 30, 2022. Management terminated the leases in March 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.

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.

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)
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 increases in net assets without donor restrictions at the point in time the event takes 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 consolidated statements of financial position. Sponsorship revenue for special events amounted to $125,396 and $102,896 for the years ended September 30, 2023 and 2022, respectively, and is recorded as contribution revenue in the consolidated statements of activities. Deferred sponsorship revenue for special events was $22,315 and $61,842 as of September 30, 2023 and 2022, 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 2023 and 2022. 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:

	2023	2022
Revenue		
Donated food	$ 5,974,913	$ 7,782,648
Donated material	1,280,370	488,956
Total revenue	$ 7,255,283	$ 8,271,604
Expenses		
Food services	$ 5,974,913	$ 7,756,215
Distribution center	1,107,936	452,795
Total expense	$ 7,082,849	$ 8,209,010

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 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 $997 and $53,384 for the years ended September 30, 2023 and 2022, respectively.

The organization determines if a contract is a lease or contains a lease at inception. 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 842: *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).

2. Summary of significant accounting policies (continued)

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 to the various departments basis on square footage occupied. 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 each of the years ended September 30, 2023 and 2022.

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 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, 2022, from which the summarized information was derived.

Change in accounting principle
In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 842, *Leases* ("FASB ASC 842") to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet by lessees and the disclosure of key information about leasing arrangements.

FASB ASC 842 was adopted October 1, 2022, and any adjustment necessary, if any, was recognized through a cumulative effect adjustment, with certain practical expedients available. There was no cumulative effect adjustment as a result of the adoption. Lease disclosures for the year ended September 30, and 2022 are made under prior lease guidance in FASB ASC 840.

FASB ASC 842 did not have a material impact on the financial statements.

2. Summary of significant accounting policies (continued)

Change in accounting principle (continued)
The Organization elected the available practical expedients to account for its existing office lease as an operating lease under the new guidance, without reassessing (a) whether the contract contains a lease under the new standard, (b) whether classification of a lease would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of FASB ASC 842, on October 1, 2022 a lease liability was recognized, which represents the present value of the remaining lease payments, discounted using the incremental borrowing rate of 8.24%.

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

Leases
The Organization determines if an arrangement is a lease at inception. An arrangement is a lease if the arrangement conveys a right to direct the use of and to obtain substantially all of the economic benefits from the use of an asset for a period of time in exchange for consideration.

Operating lease right-of use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Organization uses its incremental borrowing rate at the commencement date in determining the present value of lease payments. Using the incremental borrowing rate requires judgment and is based on external market factors.

The operating lease right-of-use asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. The lease agreement does not contain any material residual value guarantees or material restrictive covenants. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Subsequent events
Subsequent events have been evaluated through February 4, 2024, which is the date the consolidated financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Restricted cash

Asset management fee reserve
In accordance with the new markets tax credit loan agreement, SDRM shall establish a reserve in the amount of $336,000. The funds shall only be used to pay the asset management fee payable related to the new markets tax credit loan. The balance of the asset management fee reserve was $354,533 and $417,333 as of September 30, 2023 and 2022, respectively.

Compliance cost reimbursement reserve
In accordance with the new markets tax credit loan agreement, SDRM shall establish a reserve in the amount of $112,000. The funds shall only be used to pay accounting, audit and tax preparation costs payable related to the new markets tax credit loan. The balance of the compliance cost reimbursement reserve was $37,800 as of both September 30, 2023 and 2022.

3. Restricted cash (continued)

LLC fee reserve
In accordance with the new markets tax credit loan agreement, SDRM shall establish a reserve in the amount of $6,400. The funds shall only be used to pay LLC fees/tax costs payable related to the new markets tax credit loan. The LLC fee reserve had not been funded as of both September 30, 2023 and 2022.

4. 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:

	2023	2022
Cash/Money Accounts	$ 93,765	$ 142,586
Money Market Accounts	1,464,239	862,015
Equities	1,398,071	1,078,882
Mutual Funds	2,688,756	2,538,566
EFTs & CEFs	344,972	193,495
Other	-	24,795
Total	$ 5,989,803	$ 4,840,339

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:

	2023	2022
Interest and dividend income	$ 36,568	$ 21,559
Realized and unrealized gains/(losses)	414,744	(562,380)
Management fees	(42,889)	(27,883)
Total	$ 408,423	$ (568,704)

5. Capital project funds

The capital project funds are presented with investments in marketable securities in the consolidated statements of financial position as of September 30, 2023 and 2022. 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:

	2023	2022
Cash/Money Accounts	$ 3,079	$ 12,178
Mutual Funds	295,479	283,347
EFTs & CEFs	56,274	31,534
Other	-	4,102
Total	$ 354,832	$ 331,161

5. Capital project funds (continued)

The following schedule summarizes the investment return for the years ended September 30, 2023 and 2022. 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:

	2023	2022
Interest and dividend income	$ 18,321	$ 651
Realized and unrealized gains/(losses)	26,625	(60,854)
Management fees	(3,544)	(3,784)
Total	$ 41,402	$ (63,987)

6. 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 and deposited into a non interest-bearing checking account. 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 consolidated statements of activities for the years ended September 30, 2023 and 2022, and consists of the following as of September 30:

	2023	2022
Cash/Money Accounts	$ 125,691	$ 126,517

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

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

7. Notes receivable

Note receivable - New Market Tax Credit
The Foundation has the following note receivable from Twain Investment Fund 656, LLC as of both September 30, 2023 and 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

7. Notes receivable (continued)

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 had 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. On May 23, 2023, the buyer exercised the option to extend the note to July 1, 2024. The balance of the note receivable as of both September 30, 2023 and 2022 was $2,300,000. The Mission received interest income from the note receivable in the amount of $132,250 and $126,500, respectively, for the years ended September 30, 2023 and 2022, which is recorded as interest income in the consolidated statements of activities.

8. Pledges receivable

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

	2023	2022
Expected to be collected during the year ended:		
September 30, 2023		$ 1,718,669
September 30, 2024	$ 2,346,846	1,097,206
September 30, 2025	2,307,754	1,042,816
September 30, 2026	50,109	30,555
September 30, 2027	-	-
Gross pledges receivable	4,704,709	3,889,246
Less: allowance for uncollectible pledges	(235,236)	(194,462)
Less: discount to reflect pledges receivable at present value	(288,479)	(310,211)
Pledges receivable, net	$ 4,180,994	$ 3,384,573

As of September 30, 2023 and 2022, the discount rate on the pledges receivable was 8.72% and 8.24%, respectively.

9. Fixed assets

As of September 30, 2023 and 2022, the Organization's fixed assets consist of the following:

	2023	2022
Land	$ 5,920,396	$ 5,920,396
Building and improvements	29,889,681	28,871,081
Equipment	418,743	412,903
Furniture and fixtures	702,594	539,683
Autos and trucks	409,692	259,595
Equipment under capital lease	-	344,973
Software	303,195	280,949
	37,644,301	36,629,580
Less: accumulated depreciation and amortization	(11,153,918)	(10,305,639)
Total	$ 26,490,383	$ 26,323,941

10. Line of credit

On November 5, 2020, the Mission entered into a new revolving line of credit agreement with Bank of Montreal 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. Monthly payments of all accrued unpaid interest are due beginning December 5, 2020. All outstanding principal plus all accrued unpaid interest shall be due on November 5, 2023, its maturity date. As of February 4, 2024, which is the date the consolidated financial statements were available to be issued, the Mission is working with Bank of Montreal to renew the line of credit as a demand line of credit. The line of credit is secured by a commercial security agreement. No advances were made from the line of credit during each of the years ended September 30, 2023 and 2022.

11. Notes payable

Notes payable consists of the following as of September 30:

	2023	2022
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 were 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.	$ 4,535,655	$ 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 $1,160,000 and $1,455,088 as of September 30, 2023 and 2022, respectively.	2,000,000	2,000,000

11. Notes payable (continued)

	2023	2022
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, 2023 and 2022.	$ 7,047,960	$ 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, 2023 and 2022.	2,312,040	2,312,040
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, 2026. Accrued interest payable totaled $0 as of both September 30, 2023 and 2022.	4,750,000	4,750,000
Total notes payable	20,645,655	21,110,000
Less: current portion	(573,018)	(464,345)
Less: unamortized loan costs	(294,688)	(307,288)
	$ 19,777,949	$ 20,338,367

Debt issuance costs related to the refinanced commercial bank note payable of $8,854 and $10,104, net of accumulated amortization of $3,646 and $2,396 as of September 30, 2023 and 2022, respectively, are presented as a contra-liability offsetting the note payable balance in the consolidated statements of financial position. For the years ended September 30, 2023 and 2022, the effective interest rate was 3.38% and 3.32%, respectively.

Loan costs related to the new market tax credit funding note of $285,834 and $297,184, net of accumulated amortization of $17,231 and $5,881 as of September 30, 2023 and 2022, respectively, are presented as a contra-liability offsetting the note payable balance in the consolidated statements of financial position. For the year ended September 30, 2023 and 2022, the effective interest rate was 1.6310% and 1.0219%, respectively.

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

Interest expense was $493,083 and $427,215 for the years ended September 30, 2023 and 2022, respectively. As of both September 30, 2023 and 2022, the Organization was in substantial compliance with the covenants, conditions, and restrictions included in the loan agreements.

11. Notes payable (continued)

Future principal payments on the notes payable are as follows:

Years ending September 30,	
2024	$ 573,018
2025	591,666
2026	5,360,533
2027	630,001
2028	649,927
Thereafter	12,840,510
	$ 20,645,655

12. Net assets

Net assets consist of the following as of September 30:

	2023	2022
Without donor restrictions:		
Designated by the board for capital projects	$ 354,833	$ 331,161
Undesignated	23,979,272	22,030,906
	24,334,105	22,362,067
With donor restrictions:		
Walk With Me program	-	63,435
Mobile Shower Ministry	40,763	121,895
Built-in Shade Canopy for Playground	4,760	-
Handicap Accessible van	-	45,000
Capital Campaign projects	4,180,994	3,384,573
	4,226,517	3,614,903
Total net assets	$ 28,560,622	$ 25,976,970

13. Lease agreements

Facility and equipment leases

The Organization was the lessor of certain commercial space and accounted for its leases of administrative offices, the Sports Arena thrift store, and the Bread of Life program in San Diego County as operating leases. The term of the administrative office lease was from March 1, 2016, through July 31, 2026. Management terminated the administrative office lease in March 2023. The term of the lease for the Sports Arena thrift store in San Diego was from June 1, 2019, through January 31, 2023. The term of the Bread of Life program space was from July 1, 2019, through June 30, 2022. Rent expense under the commercial leases totaled $208,885 and $507,006 for the years ended September 30, 2023 and 2022, respectively and is included in rent and facilities allocated costs on the statement of functional expenses.

13. Lease agreements (continued)

Finance leases

Equipment under finance lease consists of three delivery trucks. For the year ended September 30, the Organization recorded a right-of-use asset of $177,530 which is being amortized over the remaining non-cancelable lease term.

The balances for finance leases are presented as follows on the consolidated statements of financial position as of September 30:

		2023
Finance lease right-of-use asset, net	$	111,324
Finance lease liability	$	120,107

Lease expense on the consolidated statements of activities for the years ended September 30 consists of the following:

		2023
Amortization of leased assets	$	67,051
Interest on lease liabilities		12,638
Total lease expense	$	79,689

The weighted average remaining lease term for the leases approximated 2 years and the weighted average discount rate approximated 8.24% as of September 30, 2023. The maturities of finance lease liabilities are summarized as follows as of September 30:

2024	$	65,763
2025		16,177
2026		60,834
Less: interest		22,667
Present value of lease obligations	$	120,107

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 $324,264 and $362,643 for the years ended September 30, 2023 and 2022, respectively.

14. 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 $123,996 and $105,216 for the years ended September 30, 2023 and 2022, respectively.

15. Liquidity and funds available

The following table reflect the Organization's financial assets as of September 30, 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.

	2023	2022
Financial assets:		
Cash and cash equivalents	$ 1,695,681	$ 3,891,756
Investments	6,344,635	5,171,500
Pledges receivable, net	4,180,994	3,384,573
Accounts receivable	867,698	182,478
Notes receivable	9,347,960	9,347,960
Financial assets at year-end	22,436,968	21,978,267
Less those unavailable for general expenditure within one year		
Net assets with donor restrictions	(354,533)	(230,330)
Pledges receivable, net	(1,951,491)	(1,751,837)
Notes receivable	(7,047,960)	(9,347,960)
Financial assets available to meet cash needs for general expenditures within one year	$ 13,082,984	$ 10,648,140

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization's goal is generally to maintain financial assets to meet 6 months of operating expenses.

16. New markets 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.

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.

16. New markets tax credit funding (continued)

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 on the date it is exercised. The options do not represent embedded derivatives.

17. Acquisition

On August 31, 2022, the Mission acquired the land and building located at 1818 First Avenue for $2,475,000 with unrestricted available funds. Renovations were completed on the building in March 2023 and the Mission's lease of 111 Elm Street was terminated.

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 162 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, 2023

	San Diego Rescue Mission			Eliminating	
	POB	Non - POB	Foundation	Activity	Total
ASSETS					
Current assets					
Cash and cash equivalents	$ 143,673	$ 1,037,873	$ 121,802	$ -	$ 1,303,348
Investments	354,833	5,989,802	-	-	6,344,635
Current portion of pledges receivable, net	-	2,229,503	-	-	2,229,503
Current portion of note receivable	-	2,300,000	-	-	2,300,000
Accounts receivable	10,593	857,105	-	(10,593)	857,105
Prepaid expenses	100,611	329,908	-	-	430,519
Other current assets	-	560	-	-	560
Inventory, net	-	276,684	-	-	276,684
Total current assets	609,710	13,021,435	121,802	(10,593)	13,742,354
Property and equipment, net	13,424,882	13,065,501	-	-	26,490,383
Other assets					
Restricted cash	392,333	-	-	-	392,333
Scholarship fund	-	-	125,691	-	125,691
Construction in progress	147,814	2,206,217	-	-	2,354,031
Notes receivable	-	-	7,047,960	-	7,047,960
Pledges receivable, net	-	1,951,491	-	-	1,951,491
Right-of-use asset, net	-	111,324	-	-	111,324
Other long-term assets	-	21,245	-	-	21,245
Total other assets	540,147	4,290,277	7,173,651	-	12,004,075
Total assets	$ 14,574,739	$ 30,377,213	$ 7,295,453	$ (10,593)	$ 52,236,812
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable and accrued liabilities	$ 438,887	$ 1,238,866	$ 10,593	$ (10,593)	$ 1,677,753
Compensated absences	104,773	107,067	-	-	211,840
Deferred revenue	-	134,863	-	-	134,863
Deposits	20,660	-	-	-	20,660
Current portion of lease liability	-	65,763	-	-	65,763
Current portion of notes payable, net	-	573,018	-	-	573,018
Total current liabilities	564,320	2,119,577	10,593	(10,593)	2,683,897
Long-term liabilities					
Notes payable, net	15,600,967	4,176,982	-	-	19,777,949
Interest payable	1,629,183	(469,183)	-	-	1,160,000
Lease liability	-	54,344	-	-	54,344
Total long-term liabilities	17,230,150	3,762,143	-	-	20,992,293
Total liabilities	17,794,470	5,881,720	10,593	(10,593)	23,676,190
NET ASSETS					
Without donor restrictions	(3,219,731)	20,268,976	7,284,860	-	24,334,105
With donor restrictions	-	4,226,517	-	-	4,226,517
Total net assets	(3,219,731)	24,495,493	7,284,860	-	28,560,622
Total liabilities and net assets	$ 14,574,739	$ 30,377,213	$ 7,295,453	$ (10,593)	$ 52,236,812

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	San Diego Rescue Mission			Eliminating	
	POB	Non - POB	Foundation	Activities	Total
NET ASSETS					
REVENUE AND OTHER SUPPORT					
Contributions	$ 7,102,671	$ 8,221,022	$ -	$ -	$ 15,323,693
Donated food	-	5,974,913	-	-	5,974,913
Grants and contracts	168,013	679,000	-	-	847,013
Donated material	-	1,280,370	-	-	1,280,370
Rental income	-	324,264	-	-	324,264
Program fees	-	404,343	-	-	404,343
Interest income	-	132,250	70,480	-	202,730
Thrift stores	-	997	-	-	997
Vehicle donation sales	-	46,800	-	-	46,800
Other	-	1,004,693	-	-	1,004,693
Total revenue and other support	7,270,684	18,068,652	70,480	-	25,409,816
EXPENDITURES					
Program services					
Men, women, and children's services	6,210,541	5,986,055	-	-	12,196,596
Mission services	366,200	6,948			373,148
Partners for Hunger Relief	-	2,621,035	-	-	2,621,035
Bread of Life/Oceanside Navigation Center	-	638,470	-	-	638,470
Church partnership	403,679	62,885	-	-	466,564
Thrift store ministry	-	122,597	-	-	122,597
National City Navigation Center	-	263,553	-	-	263,553
Outreach	-	493,143	-	-	493,143
New markets tax credit	151,240	-	16,169	-	167,409
Special events	-	48,175	-	-	48,175
Total program service	7,131,660	10,242,861	16,169	-	17,390,690
Management and general	69,512	1,344,779	-	-	1,414,291
Fundraising	69,512	4,406,782	-	-	4,476,294
Total expenditures	7,270,684	15,994,422	16,169	-	23,281,275
Change in net assets from operations	-	2,074,230	54,311	-	2,128,541
NONOPERATING ACTIVITIES					
Investment interest and dividends	-	60,175	-	-	60,175
Realized investment gain (loss)	-	(125,213)	-	-	(125,213)
Unrealized investment gain (loss)	-	520,149	-	-	520,149
Total nonoperating activities	-	455,111	-	-	455,111
Transfer of net assets	(2,044,903)	2,044,903	-	-	-
CHANGE IN NET ASSETS	(2,044,903)	4,574,244	54,311	-	2,583,652
NET ASSETS AT BEGINNING OF YEAR	(1,174,828)	36,239,499	7,230,549	(16,318,250)	25,976,970
NET ASSETS AT END OF YEAR	$ (3,219,731)	$ 40,813,743	$ 7,284,860	$ (16,318,250)	$ 28,560,622

SAN DIEGO RESCUE MISSION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

	San Diego Rescue Mission			Eliminating	
	POB	Non - POB	Foundation	Activities	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net assets	$ -	$ 2,529,341	$ 54,311	$ -	$ 2,583,652
Adjustments to reconcile change in net assets to					
net cash provided by (used in) operating activities:					
Depreciation and amortization	12,600	1,074,610	-	-	1,087,210
Lease expense	-	79,689	-	-	79,689
Beneficial interest in charitable gift annuity	-	(1,462)	-	-	(1,462)
In-kind distribution of inventory, net	-	(172,434)	-	-	(172,434)
Net unrealized and realized gain on investments	-	(520,149)	-	-	(520,149)
Transfer to investment account from operations	-	(2,776,937)	-	-	(2,776,937)
Change in assets:					
Account receivable	(10,593)	(674,627)	-	10,593	(674,627)
Prepaid expenses	92,176	(28,434)	-	-	63,742
Pledges receivable, net	-	(796,421)	-	-	(796,421)
Other current assets	-	1,291	-	-	1,291
Increase (decrease) in liabilities:					
Accounts payable and accrued liabilities	48,288	991,527	10,593	(10,593)	1,039,815
Compensated absences	(38,937)	52,254	-	-	13,317
Deferred revenue	-	73,021	-	-	73,021
Deposits	32,377	(9,330)	-	-	23,047
Interest payable	174,095	(469,183)	-	-	(295,088)
Deferred rent	-	(91,363)	-	-	(91,363)
Net cash provided by (used in) operating activities	310,006	(738,607)	64,904	-	(363,697)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	(23,672)	2,147,623	-	-	2,123,951
Withdrawal from scholarship fund	-	-	826	-	826
Purchase of property and equipment	90,694	(3,564,164)	-	-	(3,473,470)
Net cash provided by (used in) investing activities	67,022	(1,416,541)	826	-	(1,348,693)
CASH FLOWS FROM FINANCING ACTIVITIES					
(Payments on) proceeds from notes payable	(464,345)	-	-	-	(464,345)
Principal payments on lease liability	-	(19,340)	-	-	(19,340)
Net cash used in financing activities	(464,345)	(19,340)	-	-	(483,685)
Net change in cash, cash equivalents, and restricted cash	(87,317)	(2,174,488)	65,730	-	(2,196,075)
Cash, cash equivalents, and restricted cash at beginning of year	623,323	3,212,361	56,072	-	3,891,756
Cash, cash equivalents, and restricted cash at end of year	$ 536,006	$ 1,037,873	$ 121,802	$ -	$ 1,695,681
Supplemental disclosures of cash flow information:					
Cash paid during the year for interest	$ 57,883	$ 242,620	$ -	$ -	$ 300,503
Supplemental disclosures of non-cash investing and financing activities					
Disposal of fixed assets	$ -	$ 5,914	$ -	$ -	$ 5,914
Increase in right-of-use asset and lease liability	$ -	$ 191,013	$ -	$ -	$ 191,013
Decrease in accounts payable included in purchase of property and equipment	$ -	$ 40,615	$ -	$ -	$ 40,615

see report of independent auditors