

**GAP MINISTRIES, INC.
Tucson, Arizona**

**CONSOLIDATED
FINANCIAL STATEMENTS
Years Ended June 30, 2024 and 2023**

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	1-2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4-5
Consolidated Statements of Cash Flows	6
Consolidated Statements of Functional Expenses	7-8
Notes to Consolidated Financial Statements	9-22



Independent Auditor's Report

To the Board of Directors of
GAP Ministries, Inc.
Tucson, Arizona

Report on the Financial Statements

Opinion

I have audited the accompanying consolidated financial statements of GAP Ministries, Inc. (a nonprofit organization hereafter referred to as the Organization), which are comprised of the consolidated statements of financial position as of June 30, 2024 and 2023 and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Organization and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation of 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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my 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 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, I:

- 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 financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Darin Guthrie, CPA, PLLC

Tucson, Arizona

October 22, 2024

GAP MINISTRIES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2024 and 2023

ASSETS	<u>2024</u>	<u>2023</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 393,856	\$ 297,113
Accounts receivable, net	438,868	431,362
Promises to give, net	73,395	92,992
Inventory	66,814	37,000
Other current assets	45,164	83,181
Total current assets	<u>1,018,097</u>	<u>941,648</u>
Operating lease right-of-use assets	42,187	115,683
Property and equipment, net	<u>8,607,699</u>	<u>8,789,035</u>
TOTAL ASSETS	<u><u>\$ 9,667,983</u></u>	<u><u>\$ 9,846,366</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 208,035	\$ 194,477
Accounts payable	189,180	268,544
Accrued expenses	120,446	124,730
Current portion of lease liabilities	36,046	81,073
Other current liabilities	<u>242,262</u>	<u>222,743</u>
Total current liabilities	<u>795,969</u>	<u>891,567</u>
LONG-TERM LIABILITIES		
Lease liabilities, net of current portion	6,141	34,610
Long-term debt, net of current portion	<u>4,800,721</u>	<u>5,092,895</u>
TOTAL LIABILITIES	<u>5,602,831</u>	<u>6,019,072</u>
NET ASSETS		
Without donor restrictions:		
Undesignated	125,578	223,530
Invested in property and equipment, net of related debt	<u>3,598,943</u>	<u>3,501,663</u>
Total without donor restrictions	<u>3,724,521</u>	<u>3,725,193</u>
With donor restrictions	<u>340,631</u>	<u>102,101</u>
TOTAL NET ASSETS	<u>4,065,152</u>	<u>3,827,294</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 9,667,983</u></u>	<u><u>\$ 9,846,366</u></u>

These consolidated financial statements should be read only in connection with the accompanying notes to the consolidated financial statements.

GAP MINISTRIES, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2024

	Without donor restrictions	With donor restrictions	Total
REVENUES AND SUPPORT			
Contract revenue	\$ 3,610,163	\$ -	\$ 3,610,163
In-kind contributions	6,670,770	-	6,670,770
Contributions	1,322,699	67,648	1,390,347
Grants	46,122	342,786	388,908
Campus of Hope	-	3,182	3,182
Thrift store	577,529	-	577,529
Food program	202,835	-	202,835
Other	93,297	-	93,297
Gain on sales of assets	366,472	-	366,472
Net assets released from restrictions	<u>175,086</u>	<u>(175,086)</u>	-
	13,064,973	238,530	13,303,503
EXPENSES			
Program services:			
Splash	5,399,404	-	5,399,404
Community warehouse	2,630,320	-	2,630,320
Kitchen	1,762,686	-	1,762,686
Visitation and foster care	933,379	-	933,379
Miracle Center	<u>763,814</u>	<u>-</u>	763,814
	11,489,603	-	11,489,603
Supporting services:			
General and administrative	1,113,651	-	1,113,651
Fundraising and development	<u>462,391</u>	<u>-</u>	462,391
	13,065,645	-	13,065,645
CHANGE IN NET ASSETS			
NET ASSETS, beginning	<u>3,725,193</u>	<u>102,101</u>	3,827,294
NET ASSETS, end	<u>\$ 3,724,521</u>	<u>\$ 340,631</u>	<u>\$ 4,065,152</u>

These consolidated financial statements should be read only in connection with the accompanying notes to the consolidated financial statements.

GAP MINISTRIES, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023

	Without donor restrictions	With donor restrictions	Total
REVENUES AND SUPPORT			
Contract revenue	\$ 4,423,800	\$ -	\$ 4,423,800
In-kind contributions	5,078,038	- -	5,078,038
Contributions	1,334,679	9,000	1,343,679
Grants	- -	280,929	280,929
Campus of Hope	- -	50,754	50,754
Thrift store	502,564	- -	502,564
Food program	326,116	- -	326,116
Other	101,560	- -	101,560
Gain on sales of assets	642,669	- -	642,669
Net assets released from restrictions	<u>508,723</u>	<u>(508,723)</u>	<u>- -</u>
	12,918,149	(168,040)	12,750,109
EXPENSES			
Program services:			
Splash	5,605,083	- -	5,605,083
Community warehouse	2,159,455	- -	2,159,455
Kitchen	1,544,576	- -	1,544,576
Visitation and foster care	1,126,196	- -	1,126,196
Miracle Center	<u>543,720</u>	<u>- -</u>	<u>543,720</u>
	10,979,030	- -	10,979,030
Supporting services:			
General and administrative	871,587	- -	871,587
Fundraising and development	<u>394,098</u>	<u>- -</u>	<u>394,098</u>
	<u>12,244,715</u>	<u>- -</u>	<u>12,244,715</u>
CHANGE IN NET ASSETS			
	673,434	(168,040)	505,394
NET ASSETS, beginning	<u>3,051,759</u>	<u>270,141</u>	<u>3,321,900</u>
NET ASSETS, end	<u><u>\$ 375,193</u></u>	<u><u>\$ 102,101</u></u>	<u><u>\$ 3,827,294</u></u>

These consolidated financial statements should be read only in connection with the accompanying notes to the consolidated financial statements.

GAP MINISTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 237,858	\$ 505,394
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	274,579	238,282
Bad debt (recoveries)	15,333	(7,832)
Gain on sale of assets	(366,472)	(642,669)
In-kind donation of assets	(44,188)	(69,756)
Changes in operating assets and liabilities:		
Accounts receivable	(7,506)	171,137
Promises to give	19,597	45,602
Inventory	(29,814)	(6,000)
Other current assets	38,017	(32,077)
Operating lease right-of-use assets	73,496	65,321
Accounts payable	(79,364)	(6,753)
Accrued expenses	(4,284)	(33,813)
Operating lease liabilities	(73,496)	(65,321)
Other current liabilities	19,519	164,846
Net adjustments	(164,583)	(179,033)
Net cash provided by operating activities	73,275	326,361
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(227,714)	(586,849)
Proceeds from disposal of assets	529,798	905,000
Net cash used in investing activities	302,084	318,151
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(323,777)	(614,311)
Borrowings on long-term debt	45,161	-
Net cash used in financing activities	(278,616)	(614,311)
Net decrease in cash and cash equivalents	96,743	30,201
CASH AND CASH EQUIVALENTS, beginning	297,113	266,912
CASH AND CASH EQUIVALENTS, ending	\$ 393,856	\$ 297,113

These consolidated financial statements should be read only in connection with the accompanying notes to the consolidated financial statements.

GAP MINISTRIES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2024

	Program Services						Supporting Services			
	Community		Visitation and foster care	Miracle Center	Total program services	General and administrative	Fundraising and development	Total expenses		
	Splash	warehouse								
Salaries	\$ 1,157,080	\$ 93,471	\$ 204,982	\$ 643,047	\$ 400,905	\$ 2,499,485	\$ 602,449	\$ 205,299	\$ 3,307,233	
Payroll taxes and employee benefits	174,324	6,319	32,744	103,924	71,854	389,165	73,238	30,868	493,271	
	1,331,404	99,790	237,726	746,971	472,759	2,888,650	675,687	236,167	3,800,504	
Advertising	-	-	-	-	3,512	3,512	-	129,273	132,785	
Bad debt (recoveries)	-	-	17,501	-	-	17,501	(2,168)	-	15,333	
Bank fees	-	270	490	-	18,694	19,454	19,685	26,223	65,362	
Children allowances	13,646	-	-	-	-	13,646	-	-	13,646	
Childcare and tuition	-	-	-	11,142	-	11,142	-	-	11,142	
Clothes	3,565	-	-	-	-	3,565	-	-	3,565	
Cost of goods sold	-	3,837	-	-	3,837	7,674	-	-	7,674	
Depreciation	77,000	54,500	38,000	27,500	1,838	198,838	75,741	-	274,579	
Dues and memberships	1,286	795	583	878	533	4,075	2,591	1,620	8,286	
Employee screenings	8,469	134	55	2,044	763	11,465	430	56	11,951	
Food	2,416,719	1,581,296	966,080	-	538	4,964,633	-	-	4,964,633	
Freight	-	1,910	-	-	11,460	13,370	-	-	13,370	
Insurance	35,116	83,061	82,122	28,327	40,094	268,720	58,904	245	327,869	
Interest	94,352	56,244	25,309	23,681	7,692	207,278	48,565	-	255,843	
License and permits	20	-	776	-	10	806	20	-	826	
Miscellaneous	3,620	-	1,357	75	867	5,919	4,604	699	11,222	
Professional services	-	-	27,228	-	4,876	32,104	77,389	45,000	154,493	
Recreation services	2,918	-	-	234	-	3,152	-	-	3,152	
Rent	201,900	-	3,000	872	68,995	274,767	-	-	274,767	
Repairs and maintenance	137,897	14,065	8,502	3,139	6,563	170,166	21,993	3,263	195,422	
Supplies and materials	839,929	610,409	333,319	602	60,579	1,844,838	50,581	17,233	1,912,652	
Training	1,811	669	270	1,001	230	3,981	959	-	4,940	
Travel	3,720	-	-	708	130	4,558	4,200	1,996	10,754	
Utilities	119,567	34,889	15,818	28,394	30,468	229,136	72,686	616	302,438	
Vehicle	106,465	88,451	4,550	57,811	29,376	286,653	1,784	-	288,437	
Total expenses	\$ 5,399,404	\$ 2,630,320	\$ 1,762,686	\$ 933,379	\$ 763,814	\$ 11,489,603	\$ 1,113,651	\$ 462,391	\$ 13,065,645	

These consolidated financial statements should be read only in connection
with the accompanying notes to the consolidated financial statements.

GAP MINISTRIES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2023

	Program Services						Supporting Services			
	Community warehouse		Visitation and foster care		Miracle Center	Total program services	General and administrative	Fundraising and development	Total expenses	
	Splash	Kitchen								
Salaries	\$ 1,679,623	\$ 84,631	\$ 214,456	\$ 658,494	\$ 279,052	\$ 2,916,256	\$ 604,513	\$ 173,607	\$ 3,694,376	
Payroll taxes and employee benefits	260,798	6,750	36,776	98,586	53,276	456,186	90,317	25,127	571,630	
	1,940,421	91,381	251,232	757,080	332,328	3,372,442	694,830	198,734	4,266,006	
Advertising	192	634	-	27,843	5,273	33,942	-	116,046	149,988	
Bad debt (recoveries)	288	-	-	-	-	288	(10,000)	1,880	(7,832)	
Bank fees	10	140	543	-	13,943	14,636	626	27,083	42,345	
Childcare and tuition	-	-	-	14,821	-	14,821	-	-	14,821	
Clothes	25,350	-	1,012	-	-	26,362	-	-	26,362	
Depreciation	120,024	34,377	32,754	49,508	1,247	237,910	9,377	-	247,287	
Dues and memberships	1,572	277	422	1,766	490	4,527	2,652	732	7,911	
Employee screenings	11,810	390	802	1,964	166	15,132	403	112	15,647	
Food	1,775,445	1,131,533	767,702	291	680	3,675,651	202	-	3,675,853	
Freight	1,910	11,030	-	-	3,820	16,760	2,800	-	19,560	
Insurance	142,932	19,304	31,216	47,644	16,967	258,063	11,911	-	269,974	
Interest	147,234	6,096	12,414	24,384	4,611	194,739	6,096	-	200,835	
License and permits	-	21	586	-	32	639	940	-	1,579	
Miscellaneous	36,510	1,021	1,348	70	9,410	48,359	10,748	20,241	79,348	
Professional services	4,534	270	-	43	3,460	8,307	62,811	22,750	93,868	
Recreation services	3,711	-	-	28	-	3,739	-	-	3,739	
Rent	211,042	150,674	47,391	54,292	74,163	537,562	1,342	-	538,904	
Repairs and maintenance	100,957	42,251	40,958	11,417	4,638	200,221	33,428	-	233,649	
Supplies and materials	789,140	513,663	298,626	7,643	17,961	1,627,033	18,448	5,860	1,651,341	
Training	3,478	1,528	636	1,519	260	7,421	1,950	110	9,481	
Travel	8,525	479	541	1,077	627	11,249	3,667	-	14,916	
Utilities	155,525	41,790	47,450	51,239	20,372	316,376	17,613	550	334,539	
Vehicle	124,473	112,596	8,943	73,567	33,272	352,851	1,743	-	354,594	
Total expenses	\$ 5,605,083	\$ 2,159,455	\$ 1,544,576	\$ 1,126,196	\$ 543,720	\$ 10,979,030	\$ 871,587	\$ 394,098	\$ 12,244,715	

These consolidated financial statements should be read only in connection with the accompanying notes to the consolidated financial statements.

GAP MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The consolidated financial statements of GAP Ministries, Inc. (the Organization) are comprised of GAP Ministries, Inc. (GAP), Miracle Center (MC), and Gap Community Services (GCS).

GAP – was incorporated as a not-for-profit corporation in 1998, pursuant to the laws of Arizona. The purpose of the Organization is to fill the gap for those in need; to bring help to children, healing to families, and hope to the community. GAP operates and is supported primarily in Tucson, Arizona. The Organization has the following programs:

MC – was acquired by GAP in August 2018 through GAP's assumption of MC's board, is an Arizona not-for-profit organization. MC operates a thrift store and a comprehensive retail training program for eligible participants, who upon completion will obtain a technical certificate to assist them with steady employment, stable living and financial security beyond their career training.

GCS – was formed through common GAP board control and approved by the IRS as an Arizona not-for-profit organization in 2021. Through a board resolution during February 2024, GAP effectively transferred the operations of the Kitchen and the Community Warehouse along with work force development programs and any other future community outreach programs to GCS, which began operations July 1, 2024.

Splash (foster care group homes) – operates foster care group homes, which provide shelter, meals, religious services and counseling to displaced youth in Tucson, Arizona. GAP provides foster care through ten group homes.

Community warehouse – locally distributes donated goods for the care of the ill, needy, and youth. The community warehouse serves to support community needs, develops innovative solutions to resolve unmet needs, and implements programs where other resources are not available. Through the community warehouse, GAP receives donated goods for distribution in the community from Good360, a national not-for-profit agency that redistributes donated goods it receives. GAP must maintain certain requirements to remain a Good360 approved distributor. The community warehouse also receives a substantial amount of goods from Walmart.

Kitchen – provides meals to parents and children in need. This program also operates a community training kitchen offering a culinary arts certification program for individuals in vulnerable populations.

Visitation – provides visitation services for parents and children in foster care and management and licensing of foster parents.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include all accounts of GAP, MC and GCS. All significant intercompany accounts and transactions have been eliminated.

ADVERTISING

Advertising costs are expensed as incurred. Total advertising expense was \$132,785 and \$149,043 for the years ended June 30, 2024 and 2023, respectively.

These notes are an integral part of the consolidated financial statements.

GAP MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NET ASSETS

Net assets, support, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor restrictions.
- Net assets with donor restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

CASH AND CASH EQUIVALENTS

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

All cash and cash equivalents are placed with various credit institutions. At times, such amounts may be in excess of the FDIC insurance limits; however, management does not believe they are exposed to any significant credit risk on cash and cash equivalents.

ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of uncollateralized obligations from the State of Arizona, related to amounts earned but uncollected from the Organization's contracts with the State. Payments of accounts receivable are applied to the specific invoices identified on the remittance advice, or if unspecified, to the earliest unpaid invoices. Account balances with invoices over 90 days old are considered delinquent.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific doubtful accounts and the aging of accounts receivable. Receivables are written off when deemed uncollectible.

INVENTORY

Inventory consists of donated items such as food, household goods, clothing, and various other items that are used in the Organization's programs as well as by other not-for-profit organizations in the community. Donated goods are valued using costs associated with bringing the donated inventory to either be sold or provided to the community.

During June 2024, the Organization began purchasing certain inventory for resale for both the community warehouse and miracle center's thrift store. Purchased inventories are valued at the lower of cost or net realizable value. Cost is determined using first in, first out method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs estimated to make the sale.

These notes are an integral part of the consolidated financial statements.

GAP MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

REVENUES AND SUPPORT

Contract revenue: Revenues from governmental and other pass-through agency contracts are reported as exchange transactions based on the contract provisions. Revenues derived from contracts that are based on units of service and fees for service are recorded in the period in which the service is provided to eligible recipients. Revenues resulting from cost reimbursement contracts are recorded in the period in which allowable costs are incurred. Payments received for which there is an outstanding performance obligation are deferred to the applicable period in which the goods will be delivered or services will be performed. Thrift store sales revenue and community warehouse revenue are recognized when the customer receives and pays for the merchandise. Rental income is recognized on a straight line over the period of time covered by a lease agreement, and the total contract price is allocated over the term of the agreement and recognize each month at a prorated amount. Catering contract revenues are recognized when the catering services are provided. The food handling training revenue is recognized pro rata over the period of time of the training.

Contributions: Contributions are considered nonexchange transactions and are recognized in the appropriate category of net assets in the period received. Net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions in the period the restriction is satisfied. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Advances on conditional contributions are treated as liabilities until the conditions have been met.

Donated materials, services and equipment: Support arising from donated goods and services is recognized in the consolidated financial statements at its fair value. Donated services are recognized when the services received meet one of the following criteria:

- (a) create or enhance nonfinancial assets
- (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Although the Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization, the fair value of all these services may not be reflected in the consolidated financial statements because the above criteria are not met.

Donated clothing, supplies and food are recorded as contributions at their estimated fair market value on the date of donation. Donations of property and equipment are recorded as contributions at their estimated fair market value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted contributions. The Organization reports expirations 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.

GAP MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

PROMISES TO GIVE

Promises to give are recorded when a donor provides a written unconditional commitment to make a future contribution of some amount. Promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The Organization has not discounted its promises to give as the amount is insignificant. Management provides for probable uncollectable amounts through a provision for bad debts and an adjustment to a valuation allowance based on its assessment of the current status of the individual accounts. Management has determined that no valuation allowance was considered necessary for pledges receivable on either June 30, 2024 and 2023.

PROPERTY, EQUIPMENT, DEPRECIATION, AND AMORTIZATION

Property and equipment are stated at cost or, if acquired by gift, at estimated fair market value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets which range from 5 to 40 years. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the assets, or lease term, and is included with depreciation expense. Depreciation expense was \$274,579 and \$238,282 for the years ended June 30, 2024 and 2023, respectively.

FUNCTIONAL ALLOCATIONS OF EXPENSES

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include rent, which is allocated on a square footage basis, as well as insurance and interest, which are allocated on the basis of program cost to total cost.

INCOME TAX STATUS

GAP, GCS and MC are exempt from income taxes under both federal Internal Revenue Code Section 501(c)(3) and Arizona income tax laws and are classified as other than a private foundation under Section 509(a)(2). Income from certain activities not directly related to the Organization's tax-exempt purpose, however, may be subject to taxation as unrelated business taxable income.

The Organization has not identified any uncertain tax positions that require reporting under U.S. generally accepted accounting principles. The Organization would recognize such costs related to any such uncertainties as interest expenses and penalties in operating expenses. During the years ended June 30, 2024 and 2023, the Organization recognized no such interest or penalties.

GAP MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

LEASES

Leases are reported as either operating leases or financing leases depending on the contractual terms of the related leases. Operating leases with terms greater than twelve months are recognized as right-to-use assets and lease liabilities at the net present value of expected future lease payments after applying a discount rate of the rate implicit in the terms of the lease or the incremental borrowing rate for the Organization. Lease payments decrease the operating lease liability. The operating lease right-to-use assets are amortized over the term of the lease plus any lease extensions that management believes are more likely than not going to be exercised on the straight-line basis, with the amortization recognized as a lease expense.

Finance leases are recognized for agreements if the lease meets any of the following criteria at lease commencement:

- (1) The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
- (2) The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
- (3) The lease term is for the major part of the remaining economic life of the underlying asset.
- (4) The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments equals or exceeds substantially all of the fair value of the underlying asset.
- (5) The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

NOTE 2 – ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30 consist of the following:

	<u>2024</u>	<u>2023</u>
Accounts receivable (all current)	\$ 468,868	\$ 466,362
Less: allowance for doubtful accounts	<u>(30,000)</u>	<u>(35,000)</u>
	<u><u>\$ 438,868</u></u>	<u><u>\$ 431,362</u></u>

These notes are an integral part of the consolidated financial statements.

GAP MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 4 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets for general expenditures, that is, without donor or other restrictions limiting their use, within one year of June 30:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 393,856	\$ 297,113
Accounts receivable	434,668	431,362
Promises to give, net	<u>73,395</u>	<u>138,594</u>
Total financial assets	901,919	1,008,105
Less: donor restricted net assets	<u>(340,631)</u>	<u>(270,141)</u>
Financial assets to meet cash needs for general expenditures within one year	<u>\$ 561,288</u>	<u>\$ 737,864</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

NOTE 5 – PROMISES TO GIVE

Promises to give at June 30 consist of the following:

	<u>2024</u>	<u>2023</u>
2021 fundraising campaign	\$ 73,395	\$ 92,992
Allowance for uncollectable promises to give	-	-
Present value discount	-	-
Total promises to give, net	<u>\$ 73,395</u>	<u>\$ 92,992</u>
Amounts due in:		
Less than one year	<u>\$ 68,395</u>	<u>\$ 26,472</u>
One to five years	<u>\$ 5,000</u>	<u>\$ 66,520</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment at June 30 consist of the following:

	<u>2024</u>	<u>2023</u>
Land	\$ 1,476,948	\$ 1,519,948
Buildings and improvements	7,465,860	7,537,964
Furniture and equipment	683,230	590,237
Leasehold improvements	385,677	645,155
Vehicles	<u>575,121</u>	<u>741,122</u>
	10,586,836	11,034,426
Less: accumulated depreciation	<u>(1,979,137)</u>	<u>(2,245,391)</u>
	<u>\$ 8,607,699</u>	<u>\$ 8,789,035</u>

These notes are an integral part of the consolidated financial statements.

GAP MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 7 – LINE OF CREDIT

The Organization's financing agreement (Agreement) with Washington Federal provides for a revolving loan with a maximum borrowing capacity of \$500,000. The Agreement renewal date is May 1, 2025 and will renew from year to year unless such Agreement is terminated as set forth in the loan agreement. The outstanding balance under the agreement bears interest at a rate of Wall Street Journal prime plus 1%, but not less than 4.5% (9.0% and 9.5% at June 30, 2024 and 2023, respectively). The Agreement contains both financial and nonfinancial covenants. Borrowings are collateralized by substantially all the assets of the Organization. At June 30, 2024 and 2023 there was \$190,000 and \$200,000, respectively, borrowed against the line of credit.

During September 2024, GAP entered into a long-term promissory note in the amount of \$600,000, which effectively converted the \$190,000 outstanding line of credit balance into term debt with the remaining \$410,000 loan proceeds to be used for upgrades to the Campus of Hope (4.82 acre multi-building property purchased during 2021.) The terms are monthly principal and interest payments calculated on a 25-year fixed amortization schedule and a final balloon payment due in 2031.

NOTE 8 – OTHER CURRENT LIABILITIES

Other current liabilities at June 30 consist of the following:

	<u>2024</u>	<u>2023</u>
Line of credit	\$ 190,000	\$ 200,000
Contract liabilities	49,943	20,144
Deposits payable	250	250
Other liabilities	<u>2,069</u>	<u>2,349</u>
	<u>\$ 242,262</u>	<u>\$ 222,743</u>

NOTE 9 – RENTAL REVENUE

The Organization subleases office space, respite houses and other areas of the facilities on a month-to-month, as needed basis. Additionally, the Organization subleases a collaborative workspace to organizations in the community under an agreement held by an organization with a similar mission. Rental revenue was \$37,934 and \$39,833 for the years ended June 30, 2024 and 2023, respectively.

GAP MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 10 – LONG-TERM DEBT

The following is a summary of long-term debt as of June 30:

	2024	2023
Note payable, Washington Federal, payable in monthly installments of \$17,150 including interest at 3.79%, through December 2031 and a balloon payment of \$2,360,118 on December 15, 2031. The note is subject to a prepayment penalty and collateralized by real property.	\$ 3,090,549	\$ 3,175,480
Note payable, Wells Fargo Bank, payable in monthly installments of \$6,419 including interest at 5% with an estimated balloon payment of \$814,000 due in March 2027, collateralized by real property. Note is subject to prepayment penalties.	899,097	929,572
Note payable, Washington Federal, payable in monthly installments of \$2,378 including interest at 3.79%, through December 2031 and a balloon payment of \$327,198 on December 15, 2031. The note is subject to a prepayment penalty and collateralized by real property.	428,569	440,339
Note payable, Wells Fargo Bank, payable in monthly installments of \$1,778 including interest at 5.5%, through August 2027, with a balloon payment estimated at \$162,000 due September 2027. The note is subject to a prepayment penalty and collateralized by real property.	199,476	209,356
Note payable, Wells Fargo Bank, payable in monthly installments of \$4,203 including interest at 6.5% through August 2027, collateralized by the Organization's business assets, including real property. This note was converted from a prior line of credit agreement.	143,817	183,322
Note payable, SBA, payable in monthly installments of \$641 including interest at 2.75%, beginning June 2021 through June 2050. The note is collateralized by substantially all assets. MC must obtain and itemize receipts of the spending of the funds and retain these receipts for three years from the final disbursement date. This note can be prepaid at any time without notice or penalty.	149,900	149,900
Note payable, Wells Fargo, payable in monthly installments of \$956 including interest at 4.6% through October 2024, at which time a balloon payment estimated at approximately \$124,000 is due. Collateralized by real property.	-0-	130,786

These notes are an integral part of the consolidated financial statements.

GAP MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

	2024	2023
Note payable, Select Funding, LLC, payable in monthly installments of \$1,508 including interest at 11.46%, through May 2028, collateralized by a vehicle.	\$ 57,828	\$ 68,616
Note payable, Select Funding, LLC, payable in monthly installments of \$1,290 including interest at 16.43%, through November 2027, collateralized by equipment.	<u>39,525</u>	<u>-0-</u>
	5,008,755	5,287,371
Less current portion	<u>208,035</u>	<u>194,477</u>
	<u><u>\$ 4,800,720</u></u>	<u><u>\$ 5,092,895</u></u>

Most of the debt agreements are cross collateralized. The Organization is subject to certain financial and nonfinancial covenants that it is in compliance with at June 30, 2024 and 2023.

Future maturities of long-term debt based on the prescribed repayment schedules are as follows:

Year ending June 30,	
2025	\$ 208,035
2026	223,665
2027	1,031,846
2028	312,637
2029	250,220
Thereafter	<u>2,982,352</u>
	<u><u>\$ 5,008,755</u></u>

NOTE 11 – RETIREMENT PLAN

The Organization has a 403(b) employee benefit plan (Plan) covering all employees. Participants can elect to make limited salary deferral contributions and the Plan provides for discretionary matching and discretionary nonelective employer contributions. Management declared no matching contributions during the years ended June 30, 2024 and 2023.

GAP MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets subject to expenditure for specified purpose for year ended June 30, 2024:

	<u>July 1, 2023</u>	<u>Contributions</u>	<u>Releases</u>	<u>June 30, 2024</u>
Program restriction:				
Warehouse shelving	\$ 11,700	\$ -	\$ -	\$ 11,700
Food program equipment	18,233	-	-	18,233
Urban program	62,000	-	(62,000)	-
Food program	1,168	-	(1,168)	-
Corporate signage	9,000	-	-	9,000
Kitchen renovation	-	244,125	-	244,125
Splash improvements	-	50,000	(50,000)	-
Warehouse outreach	-	25,000	(25,000)	-
Water well	-	19,337	(14,081)	5,256
Warehouse improvements	-	10,000	(9,000)	1,000
MC career program	-	9,029	-	9,029
Bikes	-	10,921	(3,837)	7,084
Kitchen van refrigeration	-	5,000	-	5,000
Clothing pantry	-	2,704	-	2,704
Warehouse reach-in freezer	-	2,500	-	2,500
Other programs	-	<u>35,000</u>	<u>(10,000)</u>	<u>25,000</u>
	<u><u>\$ 102,101</u></u>	<u><u>\$ 413,616</u></u>	<u><u>\$ 175,086</u></u>	<u><u>\$ 340,631</u></u>

Net assets subject to expenditure for specified purpose for year ended June 30, 2023:

	<u>July 1, 2022</u>	<u>Contributions</u>	<u>Releases</u>	<u>June 30, 2023</u>
Program restriction:				
Warehouse shelving	\$ 17,700	\$ -	\$ (6,000)	\$ 11,700
Food program equipment	24,233	-	(6,000)	18,233
Youth program	52,460	-	(52,460)	-
Capital campaign	-	50,754	50,754	-
Technology program	523	3,250	(3,773)	-
Visitation place	-	40,000	(40,000)	-
Housing program	-	12,000	(12,000)	-
Recruitment program	24,689	-	(24,689)	-
SVO program	-	30,000	(30,000)	-
Assistance program	12,780	13,008	(25,788)	-
Equipment program	-	64,482	(64,482)	-
Landscaping project	105,000	-	(105,000)	-
Community program	6,542	45,339	(51,881)	-
Urban program	25,000	62,000	(25,000)	62,000
Food program	1,214	2,000	(2,046)	1,168
Corporate signage	-	9,000	-	9,000
Other programs	-	<u>8,850</u>	<u>(8,850)</u>	-
	<u><u>\$ 270,141</u></u>	<u><u>\$ 340,683</u></u>	<u><u>\$ 508,723</u></u>	<u><u>\$ 102,101</u></u>

These notes are an integral part of the consolidated financial statements.

GAP MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 13 – CONTRACTS WITH CUSTOMERS

Disaggregated revenue from contracts with customers, allocated contract receivables, and allocated performance obligations were as follows as of and for the years ended June 30, 2024 and 2023:

	Revenue recognized	Allocated contract receivables	Allocated performance obligations
<u>June 30, 2024</u>			
Recognized by:			
Point in time -			
State contracts	\$ 3,357,979	\$ 360,843	\$ 45,743
Thrift store sales	577,529	-0-	-0-
Grant revenues	388,908	89,545	-0-
Catering revenues	202,224	18,480	-0-
Community warehouse	16,192	-0-	-0-
Passage of time -			
Rent	37,934	-0-	4,200
	<u>\$ 4,580,766</u>	<u>\$ 468,868</u>	<u>\$ 49,943</u>
<u>June 30, 2023</u>			
Recognized by:			
Point in time -			
State contracts	\$ 4,333,100	\$ 336,784	\$ 18,694
Thrift store sales	502,564	-0-	-0-
Grant revenues	280,929	40,801	-0-
Catering revenues	326,116	39,959	-0-
Community warehouse	10,820	-0-	1,450
Passage of time -			
Rent	39,833	-0-	-0-
	<u>\$ 5,493,362</u>	<u>\$ 417,544</u>	<u>\$ 20,144</u>

Contract receivables related to contracts with customers are listed as allocated contract receivables in the table above. Contract liabilities related to contracts with customers are listed as allocated performance obligations in the table above and are included in other current liabilities on the statement of financial position.

GAP MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 14 – IN-KIND CONTRIBUTIONS

The Organization received donated supplies, food, and fixed assets as follows during the years ended June 30, 2023 and 2022:

	Program Services	General and Administration	Fundraising and Development	Total
<u>June 30, 2024</u>				
Food	\$ 4,804,706	\$ -	\$ -	\$ 4,804,706
Supplies	<u>1,821,276</u>	<u>-</u>	<u>-</u>	<u>1,821,276</u>
	<u><u>\$ 6,625,982</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,625,982</u></u>
<u>June 30, 2023</u>				
Food	\$ 3,436,208	\$ -	\$ -	\$ 3,436,208
Supplies	<u>1,575,908</u>	<u>-</u>	<u>-</u>	<u>1,575,908</u>
	<u><u>\$ 5,012,116</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,012,116</u></u>

The Organization received donations totaling \$44,188 and \$69,756 for construction which was capitalized during the years ended June 30, 2024 and 2023, respectively.

NOTE 15 – RELATED-PARTY TRANSACTIONS

GAP leases two other group home facilities from an officer. The monthly lease payments are \$3,000 and \$5,500 with both leases ending in December 2022 and now are month to month. Lease expenses related to these homes totaled approximately \$161,600 and \$109,500 for the fiscal years ended June 30, 2024 and 2023, respectively. One lease terminated after January 2024.

GAP also leases one home from an employee. The Organization's lease expense related to these homes totaled approximately \$36,600 and \$34,800 for the years ended June 30, 2024 and 2023, respectively. This lease terminated after October 2023.

The related party leases include a provision whereby GAP may elect to terminate the agreement in the event that its contracts with the State of Arizona are terminated. Future minimum payments under related party leases for the year ending June 30, 2024 are \$0-.

GAP MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 16 – COMMITMENTS

The Organization leases office space, vehicles, and group home facilities under operating leases that expire at various dates through November 2025, with monthly payments between \$872 and \$5,500. The discount rate imputed in the leases was 9.5% as of June 30, 2024 and 2023, which was based on the Organization's recent borrowing rates. None of the leases include options to extend the term of the leases. The present value of the operating lease right-of-use assets and operating lease liabilities was \$42,187 and \$115,683 as of June 30, 2024 and 2023, respectively. The Organization also leases vehicles and facilities under operating leases with terms of 12 months or less. The Organization has elected to treat these leases as short-term leases, in accordance with ASC 842-20-25-2. Accordingly, the Organization does not recognize right-of-use assets or lease liabilities for these short-term leases. Lease expense on short-term leases is recognized on a straight-line basis over the term of the lease. Expenses for all leases, including short term leases, were \$381,939 and \$656,700 for the years ended June 30, 2024 and 2023, respectively.

Minimum future lease payments under operating leases having remaining terms in excess of one year at June 30, 2024, are as follows:

Years ending June 30:	
2025	\$ 37,845
2026	<u>6,912</u>
Total minimum future lease payments	44,757
Amount representing interest	<u>(2,570)</u>
Lease liability	<u>\$ 42,187</u>

NOTE 17 – STATEMENT OF CASH FLOWS

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest was \$255,843 and \$248,446 during the years ended June 30, 2024 and 2023, respectively, of which \$47,601 and \$0- was capitalized during those years.

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING INFORMATION

The Organization acquired a new kitchen over in exchange for a financing agreement in the amount of \$45,161 during the year ended June 30, 2024.

NOTE 18 – CONSTRUCTION COMMITMENT

The Organization had one active construction project as of June 30, 2024. GAP had one contract related to the kitchen construction project in the amount of approximately \$434,000, of which \$95,000 had been paid during September 2024 with a remaining commitment of \$339,000.

GAP MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 19 – RISKS AND UNCERTAINTIES

Government funding and contractual risks: The Organization is dependent on the State of Arizona for a significant portion of its revenues. Changes in government policies, regulations, budget allocations, or delays in payments could affect funding levels and cash flows. The Organization is also required to comply with state and federal regulations governing the care of foster children, and to maintain licenses and certifications to comply with its state contracts.

For the year ended June 30, 2024, revenues from State of Arizona contracts and in-kind contributions comprised 27% and 50%, respectively, of total revenue and support. At June 30, 2024, State of Arizona receivables accounted for 78% of accounts receivable.

For the year ended June 30, 2023, revenues from State of Arizona contracts and in-kind contributions comprised 34% and 40%, respectively, of total revenue and support. At June 30, 2023, State of Arizona receivables accounted for 73% of accounts receivable.

Operational risks: The Organization is also subject to risks related to staffing challenges, including recruitment, training, and retention of qualified personnel.

Legal and litigation risks: From time to time, the Organization is involved in litigation and claims arising in the normal course of operations. It is not possible to predict with certainty whether or not the Organization will ultimately be successful in any of these legal matters or, if not, what the impact might be. However, the Organization's management does not expect that any legal proceedings will have a material adverse effect on the Organization's financial statements.

Donor and funding risks: The Organization depends on the cash and non-cash contributions of individuals, foundations and its community partners to supplement government funding.

Public perception and reputation risks: The Organization is subject to risks related to negative publicity, adverse media coverage, or public perception of the organization's performance, which could impact funding and donations.

NOTE 20 – SUBSEQUENT EVENTS

During September 2024, the Organization entered into a promissory loan agreement as described in Note 7.

The Organization's management has evaluated the events that have occurred prior to October 22, 2024, the date that the consolidated financial statements were available to be issued. Management has no responsibility to update these consolidated financial statements for events and circumstances occurring after this date.